

AR57

# ipSCO inc.

1998 ANNUAL REPORT





IPSCO Inc. had its beginnings in 1956 as a pipe manufacturer using purchased steel coil as a feedstock. The company began production of its own steel in 1960 and quickly evolved into Canada's major western steel company. Today, the steelmaking capacity of the company is 2,250,000 tons per year of which 56 percent resides in the United States with the balance in Canada.

The company is publicly traded, being listed on both the New York and Toronto Stock Exchanges, with the majority of shares widely held.

IPSCO employs directly and through its subsidiary companies more than 1,700 people.

IPSCO's long-term goals are to:

- be a leading supplier of wide and thick carbon hot rolled coil and discrete plate in Canada and the United States;
- become a major player in certain special steel markets, especially tubular products and alloy steels, in North America;
- be a leading processor of wide and thick carbon hot rolled coil into cut-to-length product;
- earn an average return on shareholders' equity which is among the leaders in long-term profitability in the carbon steel industry;
- be a reliable employer with excellent working conditions; and
- be a good corporate citizen in the communities in which it operates.

## The Front Cover

Toronto, Ontario is home to IPSCO Ontario Inc.'s new state-of-the-art temper line. The first such mill in the area, the massive equipment can flatten and cut to length coils of steel, in widths up to 96" and thicknesses up to 3/4", providing superior flatness and surface quality.

## The Annual Meeting

The shareholders' annual and special meeting will be held on 23 April 1999 at the Turvey Centre, Regina.

## Note Regarding Forward-Looking Statements

*Certain statements contained in each of the sections of this Annual Report, as well as in "Management Discussion and Analysis of Financial Condition and Results of Operations", "Form 40-F" and "Introducing IPSCO" constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from future results, levels of activity and achievements expressed or implied by such forward-looking statements. Such factors include, among others: general economic conditions, the demand for the specific steel products of the company, expected time of completion of commissioning of the U.S. steelworks and estimated costs in connection with these projects, the impact of new North American steelmaking capacity and the level of steel imports into the North American market, trade sanction activities, economic conditions in steel exporting nations, supply and demand for scrap steel and iron, alloys and other raw materials, supply and demand for the electricity and natural gas used by the company, changes in environmental and other regulations and the magnitude of future environmental expenditures, North American interest rates, exchange rates and, the level of demand outside of North America for steel products. As a result of the foregoing and other factors, no assurance can be given as to the future results, levels of activity and achievements.*

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## INSERTS

*Provided as self-contained documents as a service to shareholders*

Management Discussion and Analysis and Audited Financial Statements

40-F (AIF)

Introducing IPSCO



## THE YEAR AT A GLANCE

	Year ended 31 December	1998	1997	% Change
OPERATIONS	Coil and Plate Tons Produced•	1,466.7	1,058.9	39
	Finished Tons Shipped•	1,635.7	1,390.6	18
	Man-hours per Ton Shipped	2.22	2.32	(4)
EARNINGS	Sales*	\$1,099.3	\$1,025.6	7
	Net Income Available to Common Shareholders*	\$112.1	\$132.2	(15)
SHAREHOLDER INFORMATION♦	Percent Earned on Common Shareholders' Equity	11%	15%	(27)
	Per Common Share: Net Income	\$2.75	\$3.25	(15)
	Dividends	\$0.50	\$0.32	56
FINANCIAL STRENGTH INDICATORS	Working Capital at Year-End*	\$503.6	\$358.3	41
	Current Liabilities Coverage by Current Assets (Number of Times)	3.6	2.4	50
	Long-Term Debt at Year-End*	\$439.3	\$418.0	5
	Percentage of Long-Term Debt to Total Capitalization	27%	31%	(13)
	Capital Asset Expenditures for the Year*	\$161.1	\$231.2	(30)
	Number of Common Shares Outstanding at Year-End*♦	40.7	40.7	—
	Average Employment	1,721	1,710	1

• in thousands

\* in millions

♦ adjusted for 3-for-2 stock split of March 1998

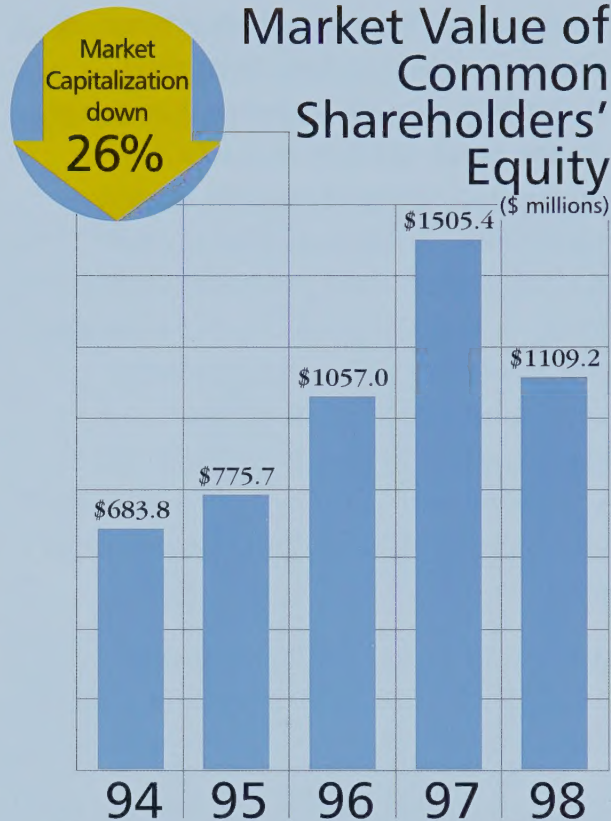


## HIGHLIGHTS

Nineteen ninety-eight was a bittersweet year for IPSCO.

On the positive side profits, although lower than in 1997, remained in excess of the one hundred million dollar mark, totalling \$112 million after tax. The new steelworks in Montpelier, despite problems with the contractor, proved its technological concept to be sound and the quality of its products was well received. The impact of a less active oil and gas drilling sector had been foreseen and sales of other further fabricated products increased to offset the resultant drop in shipments to energy sensitive end-users, validating IPSCO's strategy of maintaining extensive downstream facilities.

Unfortunately the year was marred by massive surges in imports of both flat rolled and tubular steel products to North America, and particularly to the United States. These imports are largely believed to be in violation of U.S. trade laws and World Trade Organization agreements which prohibit unfair dumped prices and government subsidies. As a result of the imports IPSCO suffered from price erosion on many of its products. More importantly it also suffered a dearth of flat rolled steel orders in the fourth quarter as industrial distributors attempted to dig themselves out of a surfeit of foreign steel, drastically lowering their domestic purchases. With the coming on stream of the Montpelier



Steelworks IPSCO's total steelmaking capacity was significantly increased but the fore-mentioned market conditions combined with difficulties at Montpelier related to deficiencies in contractor-supplied equipment meant that what could have been record financial results ended up as middle of the road.

Fortunately IPSCO's ability to reduce steel purchases from third parties and use more of its own material in further fabricating activities softened the blow.

Shareholders saw the market value of one share (after adjusting for a share split) fall by 26 percent from 31 December 1997 to year-end 1998,



following an increase of 43 percent in the year earlier period. Most steel companies saw their shares depreciate on the stock markets and IPSCO's position in terms of relative market capitalization fell from fifth to sixth among carbon steel producers traded on the U.S. and Canadian stock exchanges, the result of a merger of two other companies. Positive news for shareholders was an increase in the common share dividend of 56 percent after adjusting for a three-for-two stock split.

The profit of \$112 million, down 15 percent from 1997, was nevertheless the second best in IPSCO's history.

Employee compensation at IPSCO includes an element of profit sharing for virtually every employee. With the lower profit level of 1998 compared to 1997, such payments fell to \$7.4 million compared to \$9.1 million a year earlier (these figures exclude management bonuses which are also highly profit driven).

Sales tonnage at 1,635,700 tons exceeded that of 1997 by 18 percent. This disguised a drop of 20 percent in Canada which was more than offset by an almost five-fold increase in steel mill products sales in the United States, with the latter country now representing half of IPSCO's shipments.

Lost time accident frequency at .9 accidents per 100 man-years worked continued to be excellent although at some locations the number of accidents resulting in alternate work remained high. The severity of accidents incurred dropped moderately.

Major capital spending was directed to three projects designed to enhance the geographic and product ranges of the company's further fabricating operations. Scheduled for completion in 1999, these are two 300,000-ton per annum coil processing facilities encompassing temper mill/cut-to-length equipment located in Toronto and Houston and a 300,000-ton per annum ultra high speed small diameter pipe mill in Blytheville, Arkansas. These and other improvement projects saw capital spending amount to \$161 million.

Charitable donations and support of community activities by IPSCO totalled \$1.5 million, about 1.5 percent of after-tax profits of the preceding three years.

Despite the current dampening effect of flat rolled steel imports IPSCO believes that an electric furnace shop fed with steel scrap to produce discrete plate "in-line" and wide hot rolled coil is a viable long-term concept for the United States. In December it announced its decision to build a \$425 million U.S.

All capital spending discussed in this Annual Report is reported on an accrual basis except in the financial section where generally accepted accounting principles require that capital spending be reported on a cash basis for purposes of discussing the statement of cash flows.



1,250,000-ton annual capacity steelworks in Alabama, similar in concept to the Montpelier Steelworks. The project will

be financed from bank lines, cash flow and the proceeds of a preferred share issue and junior subordinated notes.

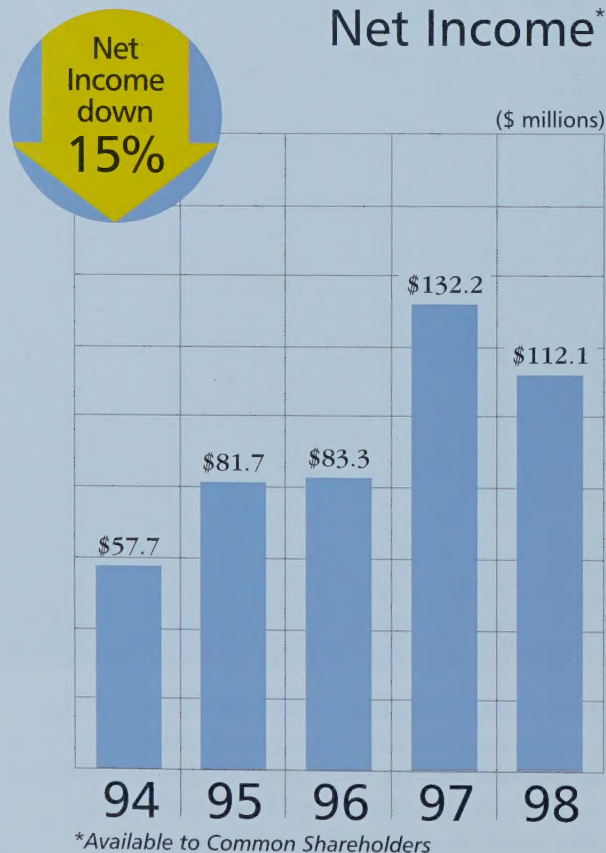


▲ IPSCO's senior management team gathers in front of the many plaques and awards given to IPSCO for its philanthropic activities. L-R: Charles Backman, Peter MacPhail, Joe Russo, Charles Sanida, Roger Phillips, Ed Tiefenbach, John Tulloch, David Sutherland, Bob Rzonca.



# FINANCIAL

For accounting purposes, commissioning of the Montpelier, Iowa steel mill was completed on 3 May 1998 which is six months from the turnover of the plant on 3 November 1997. Tonnage shipments reported in this annual report are from the start of the year. However, in accordance with generally accepted accounting principles in Canada the financial statements only include revenue associated with the facility from 4 May 1998 onward. Sales, net income, and operating profit per ton discussed in the balance of this section are based on this approach.



Net earnings in 1998 decreased by 14 percent to \$113.2 million on shipments of 1,635,700 tons. After deducting preferred share dividends, net income available to common shareholders was \$112.1 million.

Operating profit (profit before interest income, interest expense, and income taxes) per ton for the year was \$111 which compares to \$137 for 1997.

Earnings per common share on the 40.7 million shares outstanding in 1998 decreased by 15 percent to \$2.75 from \$3.25 in 1997. On a book basis the annualized rate of return on common shareholders' equity was 15 percent in



the first quarter, 12 percent in the second quarter, 10 percent in the third quarter and 9 percent in the fourth quarter. For the year the return on common shareholders' equity decreased to 11 percent from 15 percent in 1997.

On a market basis the return on common shareholders' investment in 1998 was negative 25 percent, compared to positive 44 percent in 1997. Common share prices decreased 26 percent compared to a 43 percent increase in 1997 while dividends paid per common share were \$.50 in 1998 and \$.32 per common share in 1997 adding one percent to the return in each year.

During 1998 working capital provided by operations was \$144.0 million and non-cash operating working capital was increased by \$70.0 million which resulted in a net of \$74.0 million of cash

being generated from operating activities. The payment of the portion of 1997 corporate income taxes that did not have to be paid in installments was the main reason for the increase of non-cash operating working capital. A total of \$145.6 million in cash was raised through the issuance of preferred shares net of issue costs. In addition, \$.2 million was raised from common shares issued pursuant to the share option plan and the effect of exchange rate changes on cash was \$9.3 million.

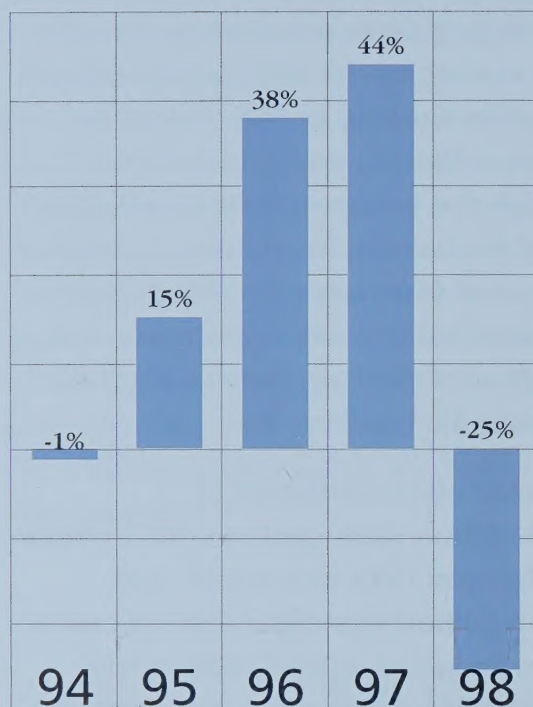
Common share dividends of \$20.3 million were paid out, \$1.7 million of long-term debt was repaid, and \$161.6 million was expended on capital assets. In addition, \$3.0 million was invested in a partnership that operates steel scrap and processing facilities in western Canada.



Financial analysts toured the Montpelier Steelworks to familiarize themselves with its operations.



## Market Return on Common Shares



As a result, during 1998 IPSCO's cash position increased by \$42.5 million to \$204.3 million at 31 December.

At 31 December 1998 IPSCO's long-term debt as a percentage of total capitalization decreased to 27 percent from 31 percent and its ratio of current assets to current liabilities increased to 3.6 to 1 from 2.4 to 1 at 31 December 1997.

In the fourth quarter IPSCO completed two financings. In November the company offered 6.0 million 5 1/2% Cumulative Redeemable First Preferred Shares, Series 1 in Canada at a price of \$25.00 per share. The shares may be

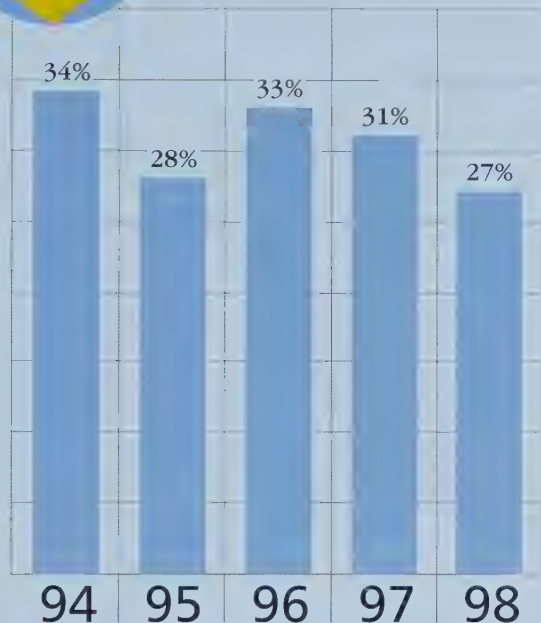
redeemed in whole or in part by the company or may be converted into common shares at any time on or after 15 May 2004. In addition, on or after 15 August 2004, the holders have the option to convert each Series 1 Preferred Share into common shares. In December, following the preferred share issue, IPSCO completed a \$100 million U.S. financing through the private placement of junior subordinated notes. The junior subordinated notes mature on 31 December 2038, subject to the company's right to redeem the notes at any time, and have an interest rate of 8.5 percent for the first 10 years (with incremental increases in the rate every five years thereafter). At 31 December the company has not issued any of these notes but has the option to do so until 10 June 2000. The \$100 million U.S. junior subordinated notes are subordinate to the preferred share issue completed in November.

In 1998 the company introduced four changes of potential benefit to shareholders. First, a three-for-two common stock split took place by way of a common stock dividend on 9 March 1998 to common shareholders of record at the close of business on 28 February 1998. Second, the quarterly cash dividend to common shareholders was increased by 56 percent. Third, the company began paying its United States shareholders the U.S. dollar equivalent of the declared dividend, net of applicable



## Debt as a Percentage of Total Capitalization

Debt at Acceptable  
27%



withholding taxes. And fourth, a dividend reinvestment and share purchase plan was created for shareholders. The plan which became effective 1 January 1998 will allow common shareholders to increase their investment in IPSCO by reinvesting IPSCO dividends and making optional investments of up to \$5,000 per quarter or \$20,000 per annum (or the U.S. dollar equivalent) in additional common shares of the company.

On 24 April 1998 IPSCO's shareholders approved certain amendments to the Shareholder Rights Agreement that was first adopted on 14 March 1990 and, in

the absence of a further amendment approved by the shareholders, will terminate at the company's annual meeting in 2001. The Shareholder Rights Agreement is to be used should an offer for control of IPSCO be made. The intent is to provide the shareholders of the company with sufficient time to assess the offer and for the company's Board of Directors to explore and develop alternatives in the best interests of the company and its shareholders.

Effective 1 January 1999, IPSCO will be reporting its financial results in United States dollars. The decision to change the currency of its financial statements has been made to reflect the company's growing American presence. With the completion of the Montpelier, Iowa steelworks, approximately 70% of the value of the company's fixed assets are located in the United States. With the construction of the previously announced pipemill in Blytheville, Arkansas, the coil processing facility in Houston, Texas and the steelworks in Mobile, Alabama, the percentage of fixed assets in the United States will continue to grow. As a result sales volumes and revenues generated in the United States will also increase in a dramatic fashion. In Canada much of the company's input costs, although recorded in Canadian dollars, are substantially influenced by the U.S. dollar.



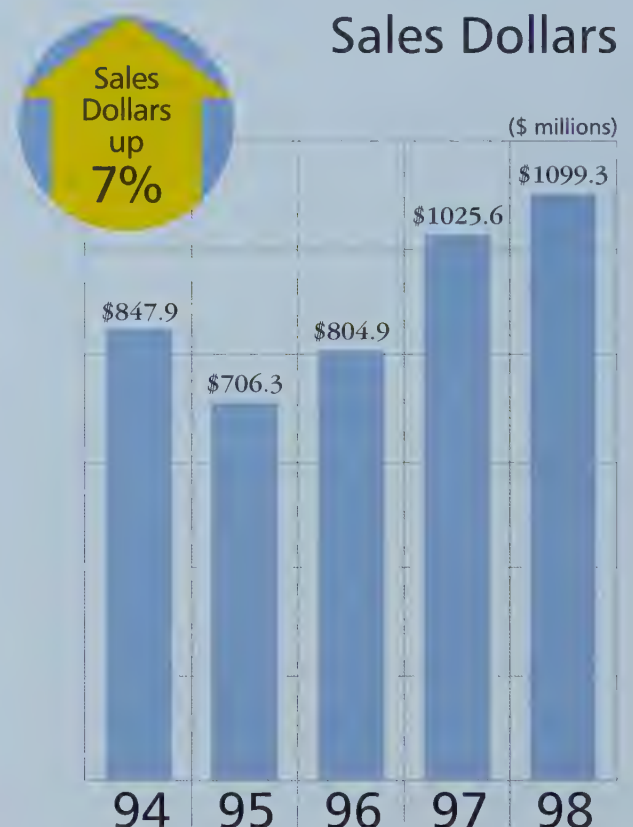
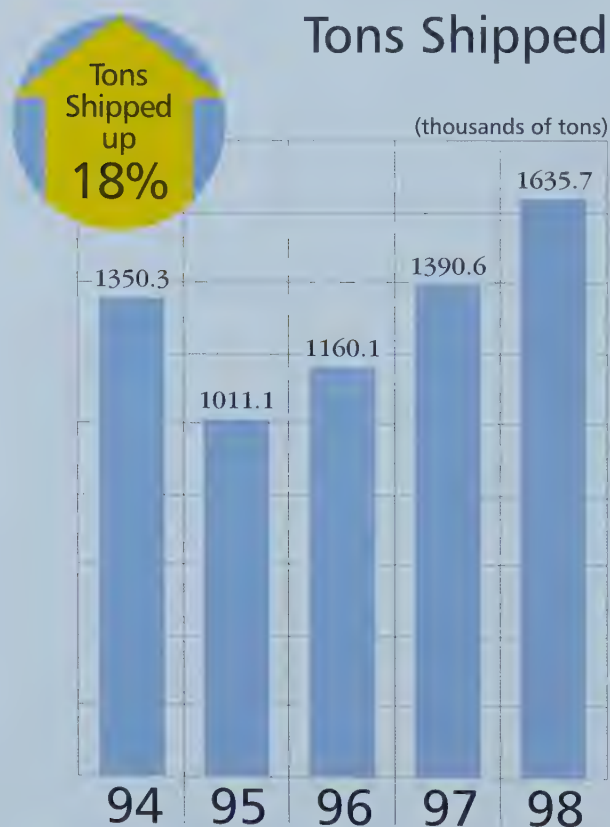
## SALES

Shipments at 1,635,700 tons were 18 percent greater than 1997 and constituted a record. These figures include tonnage produced during the commissioning period for the new steelworks in Iowa.

Sales revenues (which exclude the sales from the commissioning phase) were \$1.10 billion, barely higher than the \$1.03 billion recorded a year earlier.

Average selling price was \$705 per ton, down \$38 per ton or five percent from the year earlier period, including all shipments. The apparent decrease reflects both weaker prices in many sectors and a lower percentage of further

fabricated products but was mitigated somewhat by the drop in value of the Canadian dollar. (Because IPSCO's books have traditionally been kept in Canadian dollars the year-over-year comparisons of unit prices are confusing. In 1998 the Canadian dollar fell in value over seven percent making sales transacted in U.S. currency appear relatively higher in Canadian dollars. In addition sales in Canada are often made in competition with steel originating in the United States or offshore locations selling in American funds so that although transacted in Canadian dollars the prices of IPSCO products in Canada tend to be affected by the U.S. dollar exchange rate. In 1999



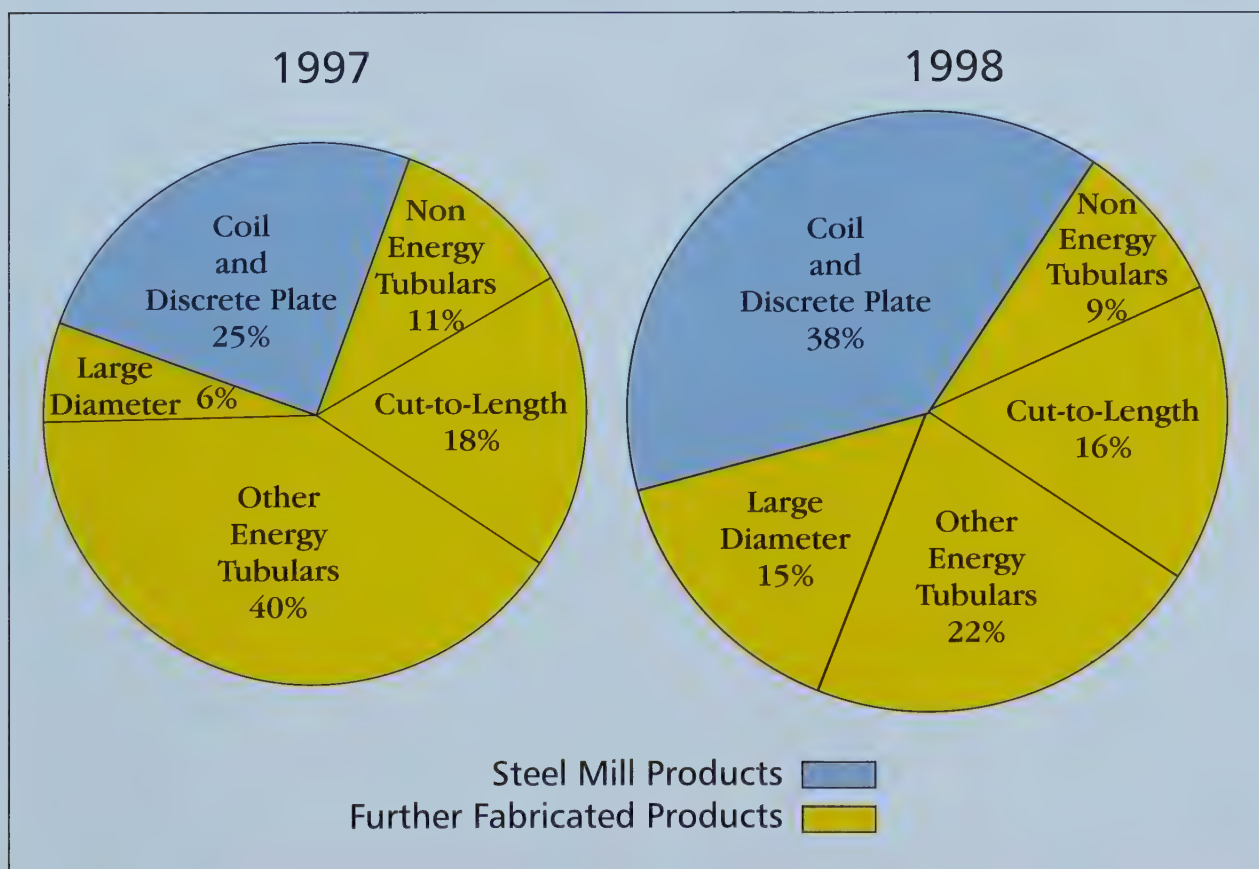


IPSCO will switch to U.S. dollar accounting, as is the practice of many Canadian multinational firms, which will lessen the confusion).

Shipments to Canadian based customers fell to 820,600 tons, a drop of just over 20 percent from the 1,033,000 tons of a year earlier. IPSCO's Canadian producing locations currently are situated such that they can efficiently serve primarily Western Canada. Sales of all products were down in that region for a variety of reasons. Oil and gas well drilling dropped about

33 percent which in turn affected the amount of steel used for down-hole applications, small diameter line pipe, and oil storage tanks. Sales of oil country tubular goods by IPSCO and flat rolled steel to tank manufacturers, distributors, and a major pipe producer fell in consequence. Agricultural equipment makers were hurt by lower sales to a hard-pressed farm economy and thus consumed less steel. In British Columbia a generally under-performing economy meant lower steel demand from most industries.

## Distribution of Sales by Product



As total tons shipped increased by 18% in 1998 shipments of steel mill products increased, especially to the U.S., and other energy tubulars fell back to 22%.





IPSCO steel can be used in many of the infrastructure improvement projects underway across North America. Here, IPSCO steel is used in a bridge in Alberta.

In contrast IPSCO shipments to U.S. based customers rose 128 percent to 815,100 tons reflecting the availability of discrete plate and wide coil from the new Montpelier, Iowa steelworks and increased sales of further fabricated products. Expressed as a percentage they amounted to 49.8 percent or virtually half of the company's total shipments. While impressive statistically, and despite the fact that 1998 was a strong year for American economic activity, IPSCO's U.S. shipments failed to take full advantage of its new steelmaking capacity due to equipment difficulties and a surge in offshore imports (see Trade Matters).

## Steel Mill Products

Shipments at 619,900 tons were 79 percent higher than the previous year principally as a result of the Montpelier Steelworks ramp-up.

Canadian tonnage sales were down 40 percent due to weaknesses in Western Canadian commodity driven sectors and were particularly effected by lower shipments of hot rolled coil to a major producer of oil country tubular goods.

U.S. destined shipments rose 448 percent as the new Montpelier Steelworks completed its commissioning period and was able to offer a range of discrete plate and wide hot rolled coil products. While the increase in U.S. steel mill product shipments on a year-over-



year basis seems impressive it must be noted that IPSCO took over its new steelworks from the contractor in November 1997 and sales in 1998 did not keep up with the designed production capability. Equipment

performance difficulties were encountered and in addition part way through the third quarter demand by distributors for these products dried up substantially as they attempted to rid themselves of excess inventories



Large diameter pipe sales were up substantially as a number of pipeline projects proceeded.



accumulated during buying sprees fueled by the availability of unfairly priced offshore imports. The greatly reduced demand by distributors has been felt by all American flat rolled steel producers and its effects continued through the fourth quarter. The Trade Matters section includes a discussion of the problem, its impact on the industry as a whole and actions taken or underway to correct the problem of offshore imports.

Because most of IPSCO's third party sales capability in this grouping was not in existence in 1997 detailed statistical analysis of the average prices on a year-over-year basis is meaningless. It goes without saying that transaction prices have eroded substantially, however, as the result of imports.

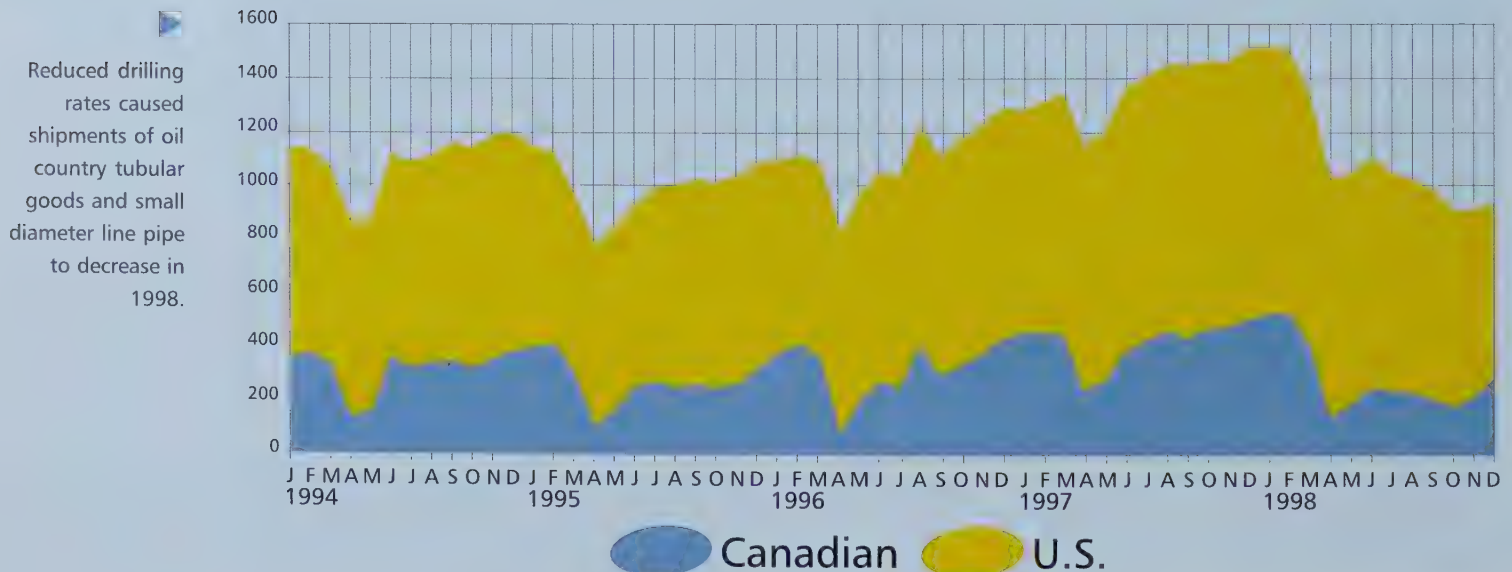
## Further Fabricated Products

Shipments of further fabricated steel products from IPSCO's manufacturing facilities fell three percent to 1,015,800 tons from 1,043,700 tons in 1997.

As with steel mill products, shipments of further fabricated products to Canadian based customers fell while American destined ones grew.

In Canada oil country tubular goods and small diameter line pipe dropped 48 percent reflecting reduced drilling rates. Mid-size line pipe was off 31 percent. On the other hand large diameter gas transmission pipe was up 187 percent as several large diameter

## Oil and Gas Well Rigs Drilling





pipeline projects proceeded. Taking product mix into account prices of these relatively sophisticated products destined for energy related uses were essentially steady in Canadian dollar terms although lower in U.S. dollars.

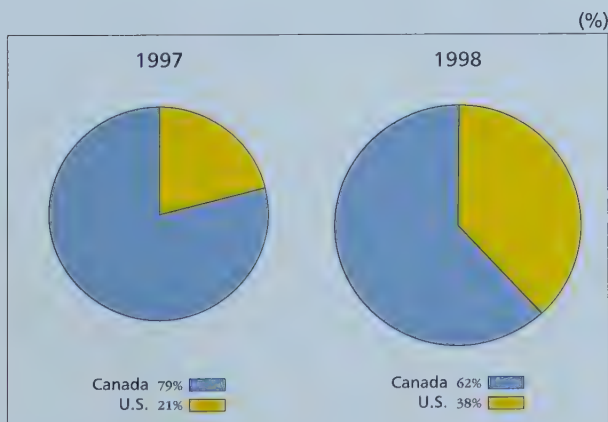
Canadian shipments of less sophisticated tubular products, primarily hollow structural tubing and standard pipe, were down 20 percent as demand in western Canada fell due mostly to weakness in the commodity driven sectors. Unit prices slipped seven percent.

Cut-to-length steel from the company's coil processing facilities for Canadian customers fell 27 percent due to the same weakness. Prices were off an average of three percent.

The bulk of IPSCO's U.S. tubular sales are destined for other than energy related applications. Shipments of hollow structurals and standard pipe rose 11 percent despite weakening markets as the company increased its market share. Unit prices fell seven percent.

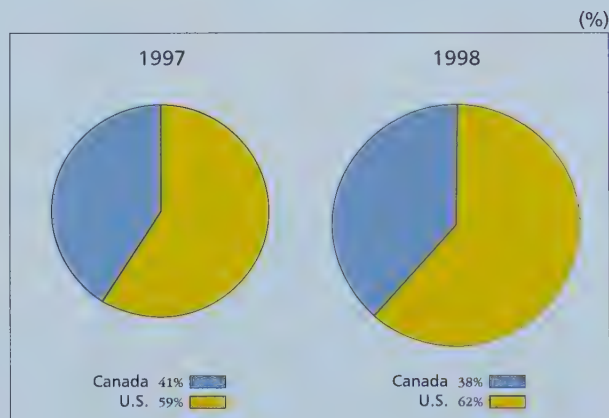
American customers saw 30 percent higher shipments of cut-to-length steel from the company's coil processing operations. Prices expressed in Canadian dollar terms were modestly up, but would have shown erosion if reported in U.S. dollars.

## Sales Dollars



▲ The percentage of IPSCO's total sales to U.S. customers continues to increase.

## Spending Dollars



▲ The share of IPSCO spending in the U.S. also continues to increase with continued expansion in the U.S.

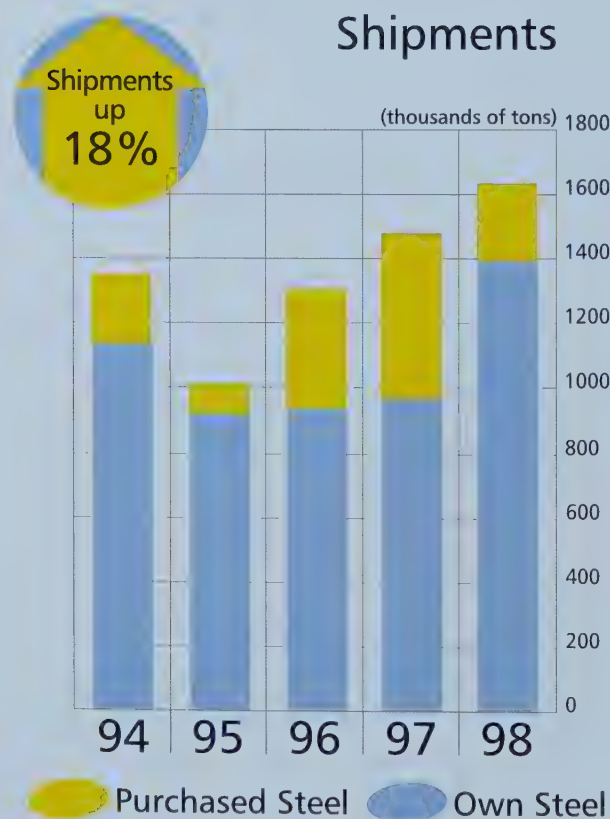


## OPERATIONS

IPSCO establishes operating levels for its various facilities designed to maximize the profit for the company as a whole. The two steelworks serve third party markets for steel mill products based on whichever one can make the best profit for the company. Because freight is a high cost the distribution of orders between the facilities is often based on geographic considerations although some products or size ranges are unique to one facility or the other. The raw material for the further fabricating operations can be a steel mill product originating in one of IPSCO's steelworks or sourced from another steel company depending which alternative generates

the greatest incremental profit. When demand is high the normal outcome will be to have each steelworks operating at effective full capacity with steel purchases also at a high level. The further fabricating facilities are then operated at the maximum capacity that increases profit at the margin. When demand drops steel purchases will be reduced as long as a decision to produce in IPSCO's own steelworks does not erode profitability due to logistic considerations.

The first half of the year required a high level of steel purchases and saw the Regina Steelworks at full capacity. As the capability of Montpelier increased during the year, the steel distributors almost simultaneously greatly reduced their purchases from all sources. IPSCO too drastically reduced its own steel purchases, somewhat cut back steel production at Regina, and was forced to drastically under-utilize the Montpelier Steelworks in the fourth quarter.



## Raw Materials

In 1998 IPSCO consumed some \$441 million of raw materials and energy in such forms as steel scrap, electricity, natural gas, alloy materials, carbon electrodes, refractories, lime, and a miscellany of other items.

IPSCO owns 61 percent of the General Scrap Partnership that operates scrap



collection and processing facilities in western Canada and several contiguous American states. IPSCO also owns 100 percent of IPSCO Direct, a scrap collection company in Alberta. During the year 50 percent of the Regina Steelworks' scrap needs were filled by General Scrap and IPSCO Direct.

The average cost of scrap consumed by both the Montpelier and Regina Steelworks fell as the year progressed. The decrease between the fourth quarters of 1997 and 1998 was 21 percent.

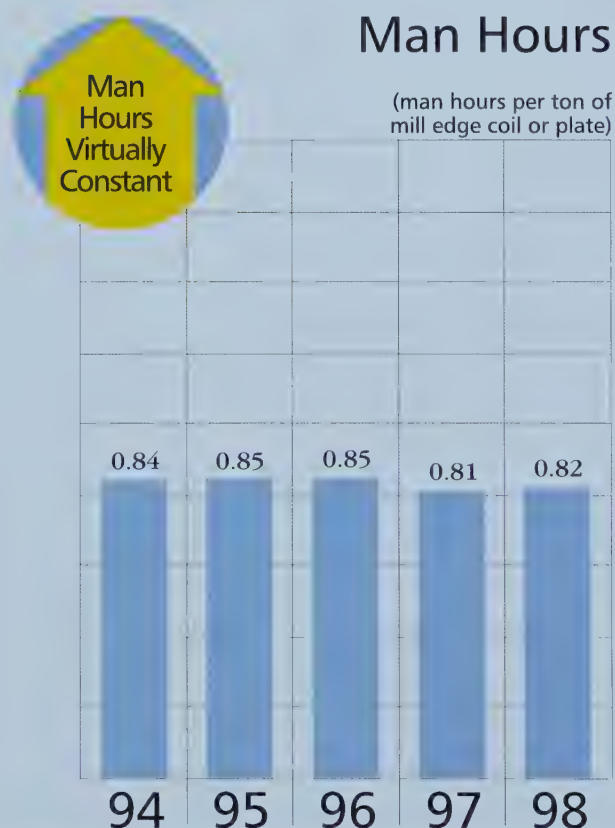
## Steelmaking

Combined steel production at the two steelworks was 1,541,900 slab tons. Regina produced just under one million tons while, for reasons previously explained, Montpelier fell just short of the six hundred thousand ton mark.

Capacity utilization at Regina was 91 percent. In the fourth quarter Regina took a 19 day shutdown which permitted supply/demand balancing while at the same time facilitating the installation of major capital equipment. Because of the start-up nature of Montpelier in 1998 capacity utilization figures were not meaningful. In 1999 these statistics will be reported.

Production of flat rolled steel in coil and discrete plate form totalled 1,466,700 tons at the two facilities.

The number of man hours required to produce an average ton of coil and discrete plate at the Regina Steelworks was .82, only marginally different than the .81 recorded in 1997. Since the Montpelier Steelworks completed its six-month startup and commissioning phase in May the man hours per ton to produce coil and discrete plate amounted to .84. While this is an already impressive number by industry standards it is expected to fall below .5 once the facility reaches higher levels of production.





Paper Cal Steel Co.'s storage space was expanded in 1998 to allow appropriate inventory to be on hand for just-in-time deliveries.



## Coil Processing

IPSCO's coil processing facilities convert the company's own hot rolled coil or that purchased from other manufacturers to "cut-to-length" steel in thicknesses of one sixteenth of an inch to one half inch and lengths up to 62 feet. In 1998 the processing operations at Regina; St. Paul, Minnesota; and Surrey, British Columbia handled a total of 301,800 tons. New facilities are under construction at Houston, Texas and Toronto, Ontario and will commence production in 1999.

## Tubular Operations

In stark contrast to 1997 when high demand for oil country tubular goods in Canada strained the capability of IPSCO's

small diameter electric resistance weld pipe mills, a sharp fall in drilling activity left them under utilized. Increases in market share in non-energy related tubulars in the United States and the high demand on the company's large diameter pipe mills due to several oil and gas transmission projects somewhat mitigated the effect of this decline. In consequence total tubular production was at 654,500 tons.

The Calgary, Red Deer, and Edmonton, Alberta small diameter pipe facilities saw overall utilization of 37 percent compared to 77 percent a year earlier. Calgary and Red Deer operated at reduced shift levels and Edmonton was idle from May onwards.

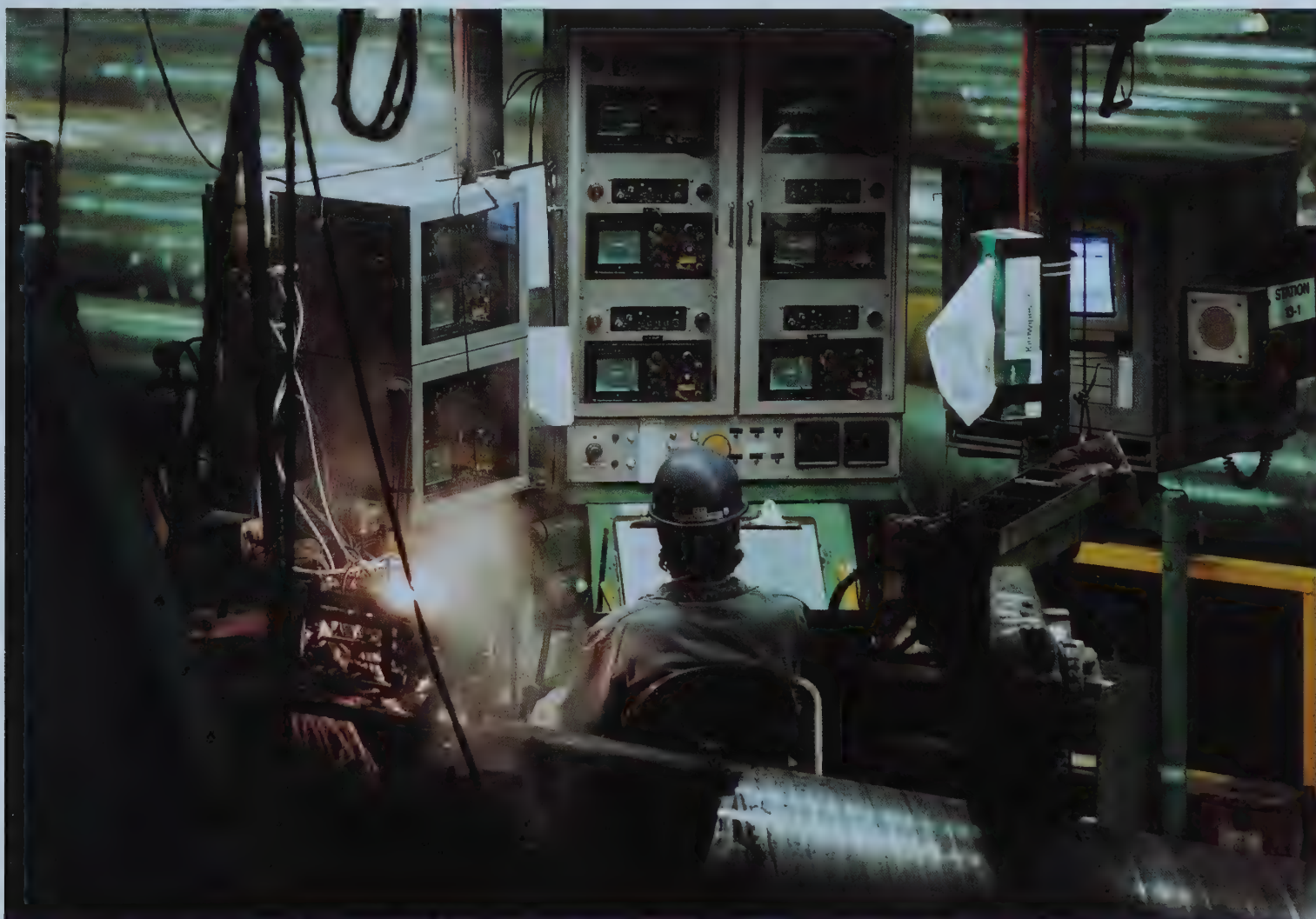


Average utilization for the Regina large diameter spiral mills jumped to 88 percent from 44 percent in 1997. The upgrading of the spiral mills was completed in May and fine-tuning proceeded throughout the balance of the year. Product yields and production rates have met expectations. The 16 to 24-inch diameter ERW mill in Regina once again saw only sporadic use with a utilization rate of 25 percent.

IPSCO's U.S. pipe mills jumped to 69 percent from 33 percent with the completion of modifications at both the Camanche, Iowa and Geneva, Nebraska facilities.

The man hours per ton required to produce one ton of finished pipe or tubing from one ton of steel averaged 2.55, up only slightly from the 2.49 required a year earlier.

Average utilization of large diameter spiral mills increased to 88 percent in 1998.





## RESEARCH AND NEW PRODUCT DEVELOPMENT

To enhance the impact of the company's research and development activities IPSCO supplements the activities of its in-house Regina-based corporate research laboratory through externally sponsored activities at various universities, and through industry-level consortia.

With the growth of IPSCO the central laboratory has been increased modestly in terms of permanent staff while the facility itself has seen substantial equipment upgrading. Supplementing full time employees at any given time are a total of five so-called "co-op" students who intersperse their university careers with four month job assignments. In 1998 such students were drawn from the Universities of Alberta, British Columbia,

Regina, and Toronto. (To assist the co-op programs IPSCO donated \$50,000 toward the administration of the programs at the universities from which IPSCO draws its students for the research area and for the other areas in which co-op students work). Additionally in 1998 the IPSCO research laboratory employed a recent university graduate under the national "Career Edge" program designed to provide new graduates with initial working experience. Under a private sector initiative, the Shad Valley Program, IPSCO provided periodic industrial work experience to graduating high school students.

In 1998 IPSCO recorded research and development spending of \$2.1 million but this figure does not reflect the full extent of the company's push to extend its technological competency. The nature of steel manufacturing is such that many innovative ideas cannot be tested out thoroughly at the laboratory scale and consequently IPSCO often uses its full production facility as a research and development tool. This is done as part of a normal production run and the cost of such work is not readily captured under the rubric of research and development.

In 1998 much of the company's research activities continued to be focussed on support for the new Montpelier

Becky Mang of Regina participated in the Shad Valley Program obtaining industrial experience before commencing university studies.



Steelworks. The individual technologies installed in Montpelier are not, although state of the art, unique. However the fashion in which they are coupled, designed to permit the loading of steel plate on trucks destined to the customer in under four hours from melting of scrap to make the steel, has produced some unusual developmental needs. Among developments relating to this work was the application for a patent covering certain aspects of a slab quenching process.

The increased popularity of heavier wall and higher strength tubular products for oil and gas transmission has produced new technical challenges with respect to the welding procedures used in the production of both IPSCO's large diameter spiral weld pipe (produced by submerged arc welding) and electric resistance weld pipe. The research facility has upgraded its own submerged arc welding capability in order to better study, on an ongoing basis, the relationship between mill control parameters, welding materials, and the resultant weld properties.

In collaboration with three gas transmission companies work is being undertaken to develop new means of characterizing fracture toughness for pipeline steels. This work stems from the need for tougher steels that can withstand increasingly higher pressure in gas transmission pipelines.

Purchasers of higher performance steels in plate form are requiring lower and lower hydrogen levels. One method of producing low hydrogen containing steels is to remove the hydrogen through a process known as degassing.

Alternately the need for such expensive degassing can be avoided or minimized by eliminating or reducing the initial entrapment of hydrogen in the steel. An extensive program aimed at a better understanding of the sources of hydrogen in steelmaking is underway.

Two areas saw major product development attention.

Procedures have been developed to extend IPSCO's ability to produce high strength coiled plate with a yield stress of 80,000 pounds per square inch to include thicknesses from 3/16 to 1/2 inch. Ongoing trials have been successful for 90,000 psi in the 3/16 to 1/2 inch range, and 100,000 psi in thicknesses of 3/8 inches and above. Such high strength products are of particular interest to rail car and truck manufacturers. The ultimate aim is to develop 100,000 psi yield strength products in a full range of coiled plate thicknesses.

IPSCO has completed the chemical design of a high strength proprietary thermal well casing for use in applications where sulphide stress corrosion qualification resistance is required. In combination with a





Ultrasonic equipment allows research and development co-op students to examine internal product quality.

modified design of IPSCO's proprietary QB2 coupling a superior performing system is expected. Further trials are underway.

IPSCO's collaborative programs with external research groups continued in 1998.

In particular, a three-year program at the University of Alberta has been commissioned to investigate the relationships between steel chemistry and microstructure and fracture toughness, stress corrosion cracking resistance, weldability, and pipe forming behaviour.

At the University of Iowa a two dimensional temperature model of a steel slab caster was completed and the work is being extended to three dimensions.

Research efforts on direct strip casting being conducted through Projet Bessemer Inc. at the Industrial Materials Institute of Canada's National Research Council was successfully concluded. This program provided a technology base on which the participants could evaluate strip casting processes.

Work on a collaborative American Iron and Steel Institute program to model hot strip mills was completed. This model provides steelmakers with a means of modelling the hot rolling process and predicting final mechanical properties for specific alloys.

Work at McGill University has supplemented IPSCO's development of high strength line pipe and contributed to the fundamental understanding of microstructure property relationships in high strength low alloy steels.

## TRADE MATTERS

With the exception of Canada and the United States virtually every major steel producing bloc and many developing countries operate with excess steel producing capacity even in times of high domestic demand. Thus even in good times they have to depend on export markets to absorb their excess production. In recent times these export markets have mainly been developing countries in South East Asia where little or no domestic steel production was in place or the United States and Canada, neither of which possesses enough capacity to fully serve its home markets. Students of economic theory might deduce, albeit incorrectly, that insufficient steel production exists in these latter two countries because they are inherently high cost producers whereas those who traditionally maintain surplus capacity are low cost steelmakers. This is not the case.

The European Union and Japan, for instance, have typically been higher cost producers than the U.S. and Canada. But government policies of one sort or another have made it a costly proposition for individual producers in those places to reduce production. For instance labour laws may make it very difficult to cut back on employees when trimming production capability. Selling surplus production at a loss may mean lower losses than just reducing production.

The surplus production, directed at North America by some offshore producers at what IPSCO believes are uneconomic prices, has resulted in a number of more efficient American and Canadian producers cutting back their own capability such that they typically can furnish only about 80 percent of the combined overall needs of the two countries.

But when a slowdown in steel demand occurs elsewhere in the world those who have become accustomed to diverting steel to America attempt to take over even a greater share of that market.

Such was the case in 1998. With a very substantial drop in south east Asian economic activity steel needs for those countries dropped drastically. So too did their demand for steel intensive manufactured goods heretofore supplied by Japan and Korea. Not only did European, Russian, Japanese, and Korean steel exporters to south east Asia feel the squeeze but domestic manufacturers of steel-bearing products in Japan and Korea cut back steel purchases as their own export demand from other Asian countries fell off. Rather than reduce their steel production "Ship it to America" became the almost universal slogan. Shipments of foreign hot rolled steel entering the United States in January 1998 constituted 22 percent of apparent demand. By November the figure was 55 percent.



Comparable Canadian figures are 21 percent and 32 percent. While demand for steel in the U.S. and Canada remained strong in 1998 such a rise in imports could only be effected by the offer of major price cuts. As inventories accumulated the imports kept on coming at lower and lower prices. Many steel traders and distributors were caught with over-priced excessive stocks.

In the third quarter many buyers of imports with these excessive stocks woke up and stopped buying. Domestic steel producers were hit with what some describe as a "buyers' strike". Some traders cancelled orders from foreign countries but quite often those suppliers shipped the steel anyway. At year-end many ocean ports remained clogged with steel. Prices fell as excess stocks were liquidated at a loss and new imports tried to push their way in at even lower prices.

The estimated share of imports as a percentage of the total market is expected to be 30 percent for the U.S. and 42 percent for Canada for the full year but more like 33 percent and 45 percent respectively for the fourth quarter. Imports will be something like 54 percent ahead of the previous year's last quarter while domestic steel production in the United States has fallen from 88 percent to 77 percent of capacity. An estimated 10,000 workers have lost their jobs. Three steel

producers have declared bankruptcy. Because of its ability to cut back on steel purchases the impact on IPSCO has been less severe than on many but nevertheless its employees and shareholders have suffered injury.

IPSCO and 11 other U.S. steel producers filed an anti-dumping suit against Russian, Japanese, and Brazilian hot rolled coil imports on 30 September. The U.S. International Trade Commission ruled 6-0 that these imports constituted an injury threat and on 12 February 1999 the Department of Commerce assessed very significant dumping margins against Brazil and Japan. A decision regarding Russia was delayed. In addition a "critical circumstances" ruling has made imports of hot rolled coil from these countries potentially liable to retroactive duties from mid-November on. Other countries have unfortunately moved to plug any holes left by the trade actions, and the flow of other steel products continues.

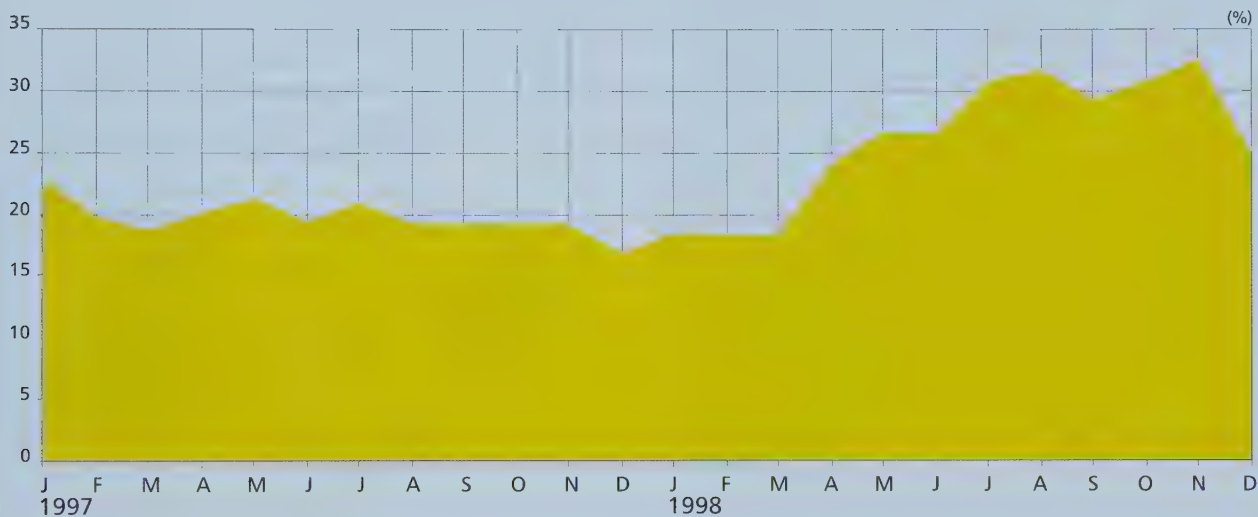
A case against plate products was filed in the U.S. on 16 February 1999 by IPSCO and four other U.S. steel producers against South Korea, France, Italy, Macedonia, India and Indonesia.

An anti-dumping complaint has been filed with Revenue Canada by a Canadian steel producer against imports of hot rolled steel from Russia, France, Romania, and the Slovak Republic. The filing was supported by IPSCO and the other Canadian producers. Revenue

Canada has determined that there is preliminary evidence of injury to the Canadian industry and has initiated an investigation into the dumping allegations. In addition Revenue Canada

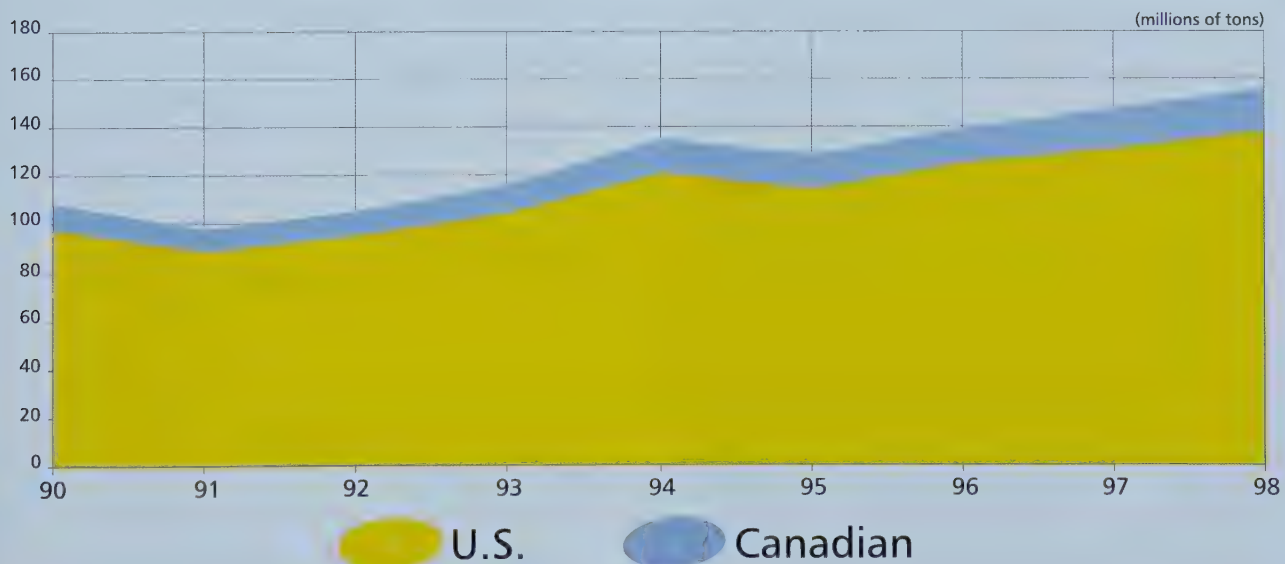
has indicated that the imposition of retroactive duties is possible. An injury finding against carbon steel plate from Italy, Spain, Korea and the Ukraine which was to expire following its fifth

## Import Penetration of Steel Markets



Import penetration into Canada and the U.S. continued to grow in 1998.

## Domestic Steel Consumption



Combined Canadian and U.S. steel consumption rose to over 156 million tons in 1998.



anniversary is being reviewed for possible continuance.

Unfortunately such trade cases are long and drawn out and much injury is caused in the interval. For this reason steel producers in both the United States and Canada have been discussing with their respective governments what, if any,

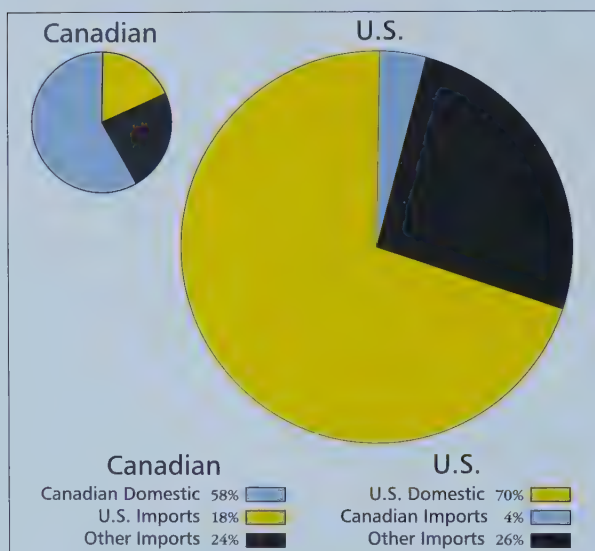
supplementary steps can be taken in the face of a truly unprecedented surge of imports. Developments will undoubtedly overtake the delay between the writing of this report and the receipt of it by our shareholders. For more timely information you are advised to consult the IPSCO website located at [www.ipsco.com](http://www.ipsco.com).

## 1998 Steel Markets

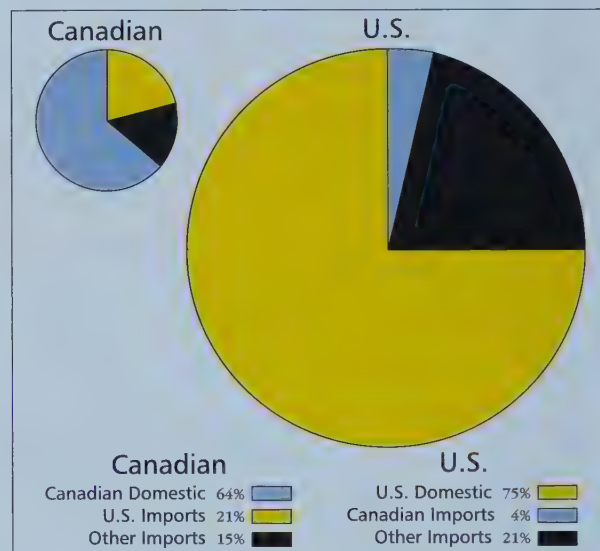
The U.S. market is eight times larger than the Canadian market.

Imports into the U.S. rose to 26% in 1998 from 21% in 1997.

In Canada imports from other countries rose to 24% from 15% in 1997.



## 1997 Steel Markets



## INVESTMENTS IN NEW AND UPGRADED FACILITIES

With the downturn in demand for tubulars in the Canadian oil patch, the completion of the Montpelier Steelworks, and upgrades at the Camanche and Geneva pipe mills the need for further enhancing capacity at existing facilities was minimal. Capital spending fell from the previous year but nevertheless with three new production sites under construction for further fabricating activities and projects justified for quality and environmental reasons, spending reached \$161 million.

Under the original agreement that IPSCO entered into for ownership of General Scrap Partnership, IPSCO acquires an additional 10 percent of General Scrap each year. The 1998 instalment brought the total holding to 61 percent of the scrap collection and processing business with operations in Alberta, Saskatchewan, Manitoba, Ontario, North Dakota, and Minnesota.

Work progressed at the Regina Steelworks on the installation of a ladle metallurgy furnace that is designed to improve working conditions and operating costs. Completion is scheduled for early 1999.

In May IPSCO announced that it would establish a 300,000-ton annual capacity coil processing facility in Houston, Texas. At an estimated cost of \$23 million U.S. it will be the first such operation in the

region incorporating a temper mill with a cut-to-length line. The project is essentially a duplicate of the Toronto

Initial commissioning of the ladle metallurgy furnace installed in Regina took place in December 1998. The furnace is designed to improve working conditions and operating costs.





facility constructed during 1998 which commenced commercial operations in February of 1999. The Houston operation will start up in the last half of 1999.

Work on the Blytheville, Arkansas 300,000-ton annual capacity ultra high-speed pipe mill continued on schedule with second quarter of 1999 commencement of commercial production expected.

The \$28 million upgrade of the Regina rolling mill and the three spiral pipe

mills was successfully completed. This new investment was made to enable the Regina large diameter facilities to produce the thicker and higher grade line pipe steels being used in new pipeline facilities in North America. This added capability is being utilized in the production of pipe for the Alliance Pipe Line project.

As reported for 1997 IPSCO took over its Montpelier, Iowa steelworks from the turnkey contractor in November of that

The Blytheville, Arkansas "bullet mill" is expected to commence commercial production in the second quarter of 1999.



year. During the ensuing months numerous modifications involving production shutdowns were undertaken by the contractor at its cost. Diligence on the part of operating personnel has ensured that the quality of shipped material has been excellent. However, the contractor has yet to meet the final performance tests called for in the contract. Discussions with the contractor with regard to IPSCO claims for compensation because of late delivery of the project, warranty, and other issues continue.

The project, successful except for delivery, warranty, and other issues arising under the turnkey contract, is considered by IPSCO to have proven the validity of the conceptual technology whereby discrete plate is produced "in-line", with the designed elapsed time from charging the electric furnaces with raw materials to loading shipping

vehicles with finished plate being under 4 hours. At the design capacity of 1,250,000 tons annually direct employment will be approximately 250 persons.

In December IPSCO announced that it had selected Mobile County, Alabama as the site of a second U.S. steelworks. The 1,250,000-ton annual capacity mill will closely parallel the Montpelier facility, recycling steel scrap and producing discrete plate and wide hot rolled coil in plate and near plate thicknesses. The United States Gulf region is the fastest growing consumer of plate in America and the new facility is expected to displace much of the imported steel coming into the region. Construction is planned to commence in the first quarter with commissioning of the new mill expected to start in the first quarter of 2001.



## IPSCO PEOPLE

With the Montpelier steelworks having been in IPSCO's hands for the first full year employment increased but weakness in demand for oil country tubular products led to layoffs in several Canadian pipemaking locations such that the net increase in year-over-year average employment was very slight, the total rising from 1710 to 1721 persons.

IPSCO congratulates the 43 employees who reached 25 years of service during the year, bringing the total number of fulltime employees with 25 or more years of service to 270. The company's Quarter Century Club, which includes those who retired after 25 years or more with the company as well as current long serving employees now counts 386 members.

Best wishes for a long and healthy retirement are extended to the 25 IPSCO people who retired in 1998.

Six employees died during the year of non-work related causes. Sympathy is extended to the family and friends of Bill Tooze, Calgary; Dale Valstar, Red Deer; Angel Marin, Syd Protheroe, Noel Starr, and Dale Zerr, all of Regina.

The drop in company profits meant that profit sharing payments were lower than the record 1997. Nevertheless a substantial \$7.4 million (down from \$9.1 million a year earlier) was paid out in the form of cash or IPSCO shares under the company's various profit sharing plans (this figure excludes management

Classroom training commences before production starts at the Blytheville Pipeworks.



bonuses which are also related to profitability).

Almost every IPSCO employee is eligible for some form of profit sharing under one or more such plans. In fact, some 2400 "memberships" in various plans were in place in 1998, exceeding the total average employment as some persons were eligible to participate in more than one plan.

IPSCO employees at most locations, with the exception of United Steelworkers of America members who have a separate arrangement, are eligible to join a voluntary profit sharing and savings plan. Under the plan individuals make contributions of between \$200 and \$1,000 annually through payroll deductions. This amount is used by independent trustees to purchase IPSCO shares on the open market on the member's behalf. At year-end a portion of the company's after-tax profit, in excess of a notional dividend pay out, is shared pro-rata among the plan participants based on their own contributions up to \$500. For individuals who contributed a minimum of \$500 in 1998 a total of 179 IPSCO shares comprised of 14 shares from their own contributions plus 165 shares in profit sharing were credited to their accounts. An employee who has made annual contributions of \$500 to the plan since its inception 14 years ago would see her or his contributions totalling \$7,000 swollen by the addition

of profit-sharing awards and dividend investments such that she or he now would own 2000 IPSCO shares with the market value of approximately \$52,000.

United Steelworkers members at IPSCO facilities in Regina, Edmonton, and Calgary belong to a separate plan which also involves profit sharing in the form of IPSCO shares. In 1998 those employees working 520 hours in each quarter received 66 IPSCO shares (current approximate value of \$1,720).

Employees in either plan may sell all or part of their shares at any time. When this report was under preparation the plan trustees were holding 330,000

## Frequency of Lost Time Accidents

(per 100 man years worked)





shares on behalf of plan members with a market value of \$9 million as of year end.

In 1998 the company-wide frequency of accidents requiring time off from work was .9 per 100 man years worked, unchanged from the year earlier. The severity of the average such accident was down but only slightly. Some accidents, although not contributing to time off from work, necessitate an employee engaging in alternate or lighter work for a period of time. Although the frequency of such accidents decreased marginally IPSCO management feels there is still room for improvement in this regard.

For years IPSCO has encouraged employees to continue their education on their own personal time, with the company paying for the tuition cost of such further education if successfully completed. As the result of an IPSCO request to the Canadian government, which became a public issue, such education assistance has been declared non-taxable (Revenue Canada had been insisting on treating it as a taxable benefit). This move will undoubtedly encourage more people to continue their education. As the result of IPSCO's successful campaign many IPSCO employees are eligible to receive tax refunds for prior years. In 1998 tuition assistance reimbursement was made for 64 external programs and courses attended by employees on their own time. Thirty-eight of these were undertaken by hourly paid employees.

IPSCO also sponsors extensive on-the-job training programs. In Canada some of these are coordinated through the Canadian Steel Trade and Employment Congress (CSTEC), a joint venture between Canadian steel companies and the United Steelworkers of America. In 1998 IPSCO spent approximately \$1.6 million on various employee training initiatives in Canada, of which \$126,000 came from federal government funding via the CSTEC training programs. In the U.S. training spending was approximately \$600,000, much of which is reimburseable to IPSCO under state government training support programs for new facilities.

There were no collective bargaining agreements expiring during the year.

## Officers and Directors

Bill Sharp, IPSCO's founding president and chief executive officer died on 20 June 1998. Eulogies, being by practice or definition posthumous, result in the departed individual not finding out what his successors thought or said of him. In Bill Sharp's case this was not true since a year earlier IPSCO had named the road entering the new Montpelier Steelworks "Bill Sharp Boulevard" in his honour. Although his health had not permitted personal presence at the dedication ceremony Bill was able to view a video of the event which included the unveiling of a plaque which read in part:

*We salute Bill Sharp; a man ahead of his time; a man who has always lived up to his name.*

IPSCO extends its sympathies to Bill's widow Freda and his family.

Mr. Bernard Michel was elected a director of the company at the annual meeting in April. Chairman and Chief Executive Officer of Cameco Corporation, the world's largest uranium mining company, he brings extensive experience both in management and as a corporate director, to IPSCO's board deliberations.

Mario Dalla-Vicenza retired from IPSCO in November after a 15-year career which culminated in the senior roles of Senior Vice President, Corporate Affairs and Senior Vice President and Chief Financial Officer. Much of the financial strategy which saw IPSCO grow from steel shipments of 316,000 tons in 1983 when he joined the company as Treasurer to the 1,635,700 tons sold in 1998 was implemented under his guidance. He was also a tireless contributor to the community, most recently as Chairman of Ranch Ehrlo Society, a training and employment program for youth who are not benefitting from traditional school programs or who are beyond the age of local school jurisdictions.

IPSCO people everywhere wish Mario and his wife Deanna a long, prosperous, and happy retirement.

Just prior to year end a series of officer appointments were made, to take effect in January 1999.

John Tulloch was appointed Senior Vice President and Chief Commercial Officer, a new role. Tulloch will be responsible for corporate marketing strategy and coordination of company-wide issues involving the various specialized sales forces, including pricing and steel make-or-buy decisions. Tulloch has been employed by the company for 21 years, holding a series of management roles, most recently as Vice President and General Manager, Tubular Products.

Succeeding Tulloch as Vice President and General Manager, Tubular Products, is David Britten, who has occupied a number of sales, sales development, and production management functions during a 13-year career with IPSCO.

Anne Parker was named Vice President, Trade Policy and Communications. A lawyer, Parker has been with the company since 1987, serving in the company's Legal Department, as Director of Communications, and Assistant Secretary.

John Comrie, Q.C. heretofore Secretary, was named Vice President. As Vice President and Secretary he continues to head the company's legal department.



## IPSCO AS A CORPORATE CITIZEN

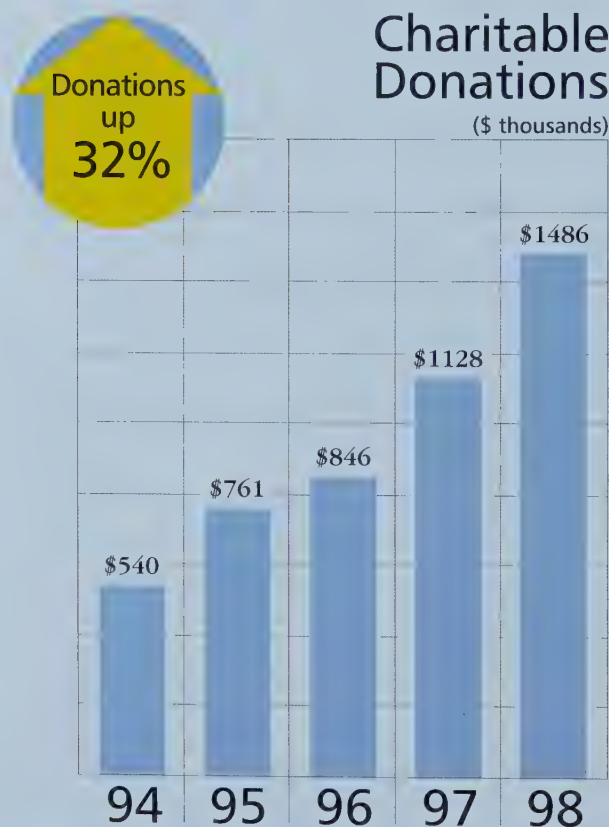
IPSCO believes that it has three principal roles as a corporate citizen – community support and charitable giving, protection of the environment, and support for industry and business generally.

Contributions in 1998 to charitable and community support activities amounted to \$1.5 million equalling the company's objective of giving 1.5 percent of IPSCO's after-tax profits averaged over the three preceding years.

IPSCO, while not neglecting nation-wide charitable institutions, emphasizes giving in the communities where it operates. Accordingly its donations were received by myriad deserving groups in several

provinces and states. The following examples, chosen from many, are presented to give shareholders an idea of the comprehensiveness of the program:

- In Houston, Texas, the site of IPSCO's new coil processing facility, funding was extended to a local grade school to provide such basic needs as pencils, erasers, and markers, the particular school being one of the poorest in the Houston district.
- In Alberta a donation was given to STARS (Shock Trauma Air Rescue Society) an organization which operates two helicopters. Founded by volunteer doctors, nurses, and paramedics the organization exists to better serve the critically ill and injured in rural areas.
- In Iowa a contribution was made to the Mount St. Clair Community College for the construction of a new multipurpose facility to be called the "Durgin Educational Centre". This college provides important higher educational opportunities for people in eastern Iowa and western Illinois. Students attending are from 17 states and 14 countries.
- In Regina a major donation to support the purchase of state-of-the-art medical equipment for public ambulance services was made.



IPSCO, as a steel manufacturer, believes it has a major responsibility to operate its

facilities in an environmentally sustainable fashion. This requirement to be environmentally sustainable involves conducting its business without causing significant long term harm to the environment. On the other hand, the opportunity also exists for IPSCO to enhance the environment as a result of the processes it uses in the manufacture of steel.

IPSCO uses scrap steel and iron as a raw material for making its steel. To this extent IPSCO recycles virtually 100 percent of the scrap metal that is available in the areas surrounding its steelmaking facilities. This includes the tin cans that are frequently seen being collected in "blue box" type recycling programs. The term "tin cans" is commonly used for containers which are made of steel and coated with tin for protection. These tin cans are not only recycled by IPSCO, they are purchased by the company at the current scrap price for such materials resulting in an opportunity to generate income for those organizations collecting the cans. In 1998 IPSCO recycled some 1,749,000 tons of all sorts of steel and iron scrap. As this was recycled from previously used materials, the need to produce steel from mined iron ore was reduced by an equal amount.

Steel as a material is unique in its recyclability in that it can be recycled an indefinite number of times without

reducing the high quality properties of the products being made. It fulfills the ever increasing need to conserve both energy and materials. Canada and the United States are world leaders in the use of recycled scrap steel for making steel products. According to the International Iron and Steel Institute the major world steel producing countries averaged 34 percent of their product being produced via energy efficient scrap based electric arc furnaces while Canada and the United States averaged 42 and 44 percent respectively.

Greenhouse gases have recently become a significant concern among some members of the public due to the possibility of global warming. The most

The Montpelier Steelworks supported the Quad City Symphony by becoming a sponsor of the Symphony in Bloom fundraiser.





prevalent greenhouse gas is carbon dioxide which is the product of combustion of all carbon based fuels. This includes natural gas, gasoline, and coal. Many companies, including IPSCO, have carefully reviewed practices with respect to the use of fossil fuels to ensure that everything is being done to minimize fossil fuel consumption. This is in spite of the fact that the science suggesting that global warming is caused by the increased manmade generation of greenhouse gases such as carbon dioxide is less than certain. It should be noted that the entire steel industry of Canada and the United States emits only 1.5 percent of all the greenhouse gases emitted by the two countries from all other human sources.

Because IPSCO makes steel by melting scrap metal in so-called "electric arc furnaces" it does not have to mine and smelt iron ore in order to produce metallic iron. As a result of not having to use the smelting or reducing process IPSCO saves a great deal of energy and in particular generates dramatically lower quantities of greenhouse gases. In fact, by using scrap steel rather than iron ore as its raw material IPSCO generates less than 25 percent of the carbon dioxide emissions that are produced by companies using iron ore. In this way, IPSCO, as it has grown as a company, has been able to help in the reduction of carbon dioxide emissions by displacing

production that once came from the iron ore route.

Despite significant progress made by many industries in decreasing the generation of greenhouse gases, the issue continues to present problems for IPSCO and its shareholders. The proposed agreement under consideration by both the U.S. and Canadian federal governments, called the Kyoto Protocol, is intended to reduce greenhouse gas emissions in absolute terms. This means that due to the growing economy and in particular growing population, improved efficiency in the use of energy will ultimately fail to reduce total emissions sufficiently to meet the commitment. Industrial sources of greenhouse gases are only a portion of the U.S. and Canada's total emissions, with consumption of energy by the public in general being a major contributor. The objectives outlined in the Kyoto Protocol cannot be achieved without significant reductions resulting in the lowering standard of living of all citizens. It is clear that research must continue into the science upon which the agreement was based. IPSCO believes that reductions in living standards due to energy reductions imposed by Kyoto should not be permitted until the science behind the objectives of the Kyoto Protocol is properly understood, until it is demonstrated that the proposed reductions will actually resolve the global

warming issue and, until it is demonstrated that global warming is a condition that will be detrimental to our population.

Although the public press seems to indicate that global warming and fossil fuel consumption is the major environmental concern, IPSCO must spend a great deal of its environmental resources on less publicized but more directly relevant issues, ensuring that its facilities meet the environmental requirements placed upon the company by regulators. To this end expenditures are continually being made to improve environmental performance. In 1998 IPSCO spent \$9.2 million on non-routine and capital expenditures for environmental improvements in Canada and a further \$6.1 million on its facilities in the United States. The funds spent in the United States were committed in spite of the fact that IPSCO has just started up a state-of-the-art steelmaking facility.

In addition to non-routine and capital expenditures for environmental improvements, IPSCO assisted various universities in conducting research into several aspects of global warming and energy conservation. This research has taken a three-pronged approach to the problem.

First, there is the desire to better understand the effects of carbon dioxide and the other greenhouse gases on the climate within which we all live so that



we can take the most appropriate actions in trying to resolve the global warming issue. IPSCO has supported researchers in their efforts to understand the relationship between fossil fuel consumption and global warming.

Second, IPSCO supports research into potential mitigation opportunities that exist in Canada and the United States. Since fossil fuels are going to continue to be used in spite of our best efforts it is important to find ways to avoid harmful effects on the environment from the use of these fossil fuels. Because of unique circumstances in North America the opportunities for biological solutions to carbon dioxide emissions are substantial. The potential for enhanced farming and forestry practices offers North Americans

The baghouse at the Montpelier Steelworks is used to filter the exhaust emitted during steelmaking to allow it to meet environmental standards.



the additional option of reducing net carbon dioxide emissions in a cost effective fashion by using our land mass, our farms, and our forests as significant potential sources for carbon sequestration or storage. Sequestration is the process whereby carbon dioxide is removed from the air and is stored in various forms. Carbon sequestration could permit us to meet any future global carbon emission goals in a fashion that also permits a continued high standard of living for North Americans.

The third area of research conducted by IPSCO and universities supported by the company is in the area of the production of ever higher strength steels. As steels are designed and produced with higher strength while retaining other important properties, the ability exists to make

products such as pipelines, rail cars, trucks and automobiles with proportionally less steel, thus reducing the amount of greenhouse gas emissions resulting from the manufacture of these products. In the area of mobile vehicles there is the added advantage of reduced energy required to operate them. Although the most dramatic demonstration of the effect of steel has been the "Ultra Light Steel Auto Body" (ULSAB) program that has been promoted by the International Iron and Steel Institute and has demonstrated a 25 percent reduction in autobody structure without any reductions in customer values, IPSCO continues to support many other programs which relate more closely to the products it produces.

As part of its ongoing environmental program IPSCO signed in November an Environmental Management Agreement with Saskatchewan Environmental Resource Management, which is the environmental regulator in the province of Saskatchewan. The agreement recognizes that sustainability, careful use of resources, and sound economics are keys to sound environmental management. The objectives of the agreement are to enhance the exchange of information, ideas, and communication between IPSCO and Saskatchewan Environmental Resource Management. This agreement enhances the opportunity for IPSCO to be proactive with respect to environmental

The South Saskatchewan Youth Orchestra was sponsored by IPSCO to attend the Banff International Youth Orchestra Festival.



legislation and will assist the company in achieving levels of environmental performance that not only meet but exceed the legislation.

IPSCO is a member of the Canadian Steel Producers Association and as part of this association works with all other Canadian steel companies to promote improvements in environmental performance. In 1998 all of the member companies of the Canadian Steel Producers Association signed a Statement of Commitment and Action on environmental matters. The purpose of this statement is to provide a framework outlining the principles, priorities and objectives to achieve continuous improvement relative to environmental performance. The goals are to reduce negative environmental impacts over time. These goals will be achieved through committed, voluntary action by the member companies of the Canadian Steel Producers Association. Included in the statement is a requirement to measure performance and to report to the public on this performance. The first year for reporting is 1998 and the report will be issued later in 1999. IPSCO is participating in this Statement for Commitment and Action and will be part of the first report.

Beyond steel industry level associations IPSCO supports broader based industry groups in both the U.S. and Canada, in particular the Chamber of Commerce movement in both countries and the Business Council on National Issues in



Canada. On a still broader basis IPSCO belongs to the Public Policy Forum, an organization established to foster modern professional management practices in the Canadian public service, the C.D. Howe Institute, which publishes a broad cross section of views on Canadian public policy matters, and supports the Canadian Policy Research Network which conducts research into specific public policy issues.

Each of IPSCO's operating facilities has a donations committee which supports community organizations such as Millwoods Soccer in Edmonton.



## OUTLOOK

As this report is being prepared it is apparent that the trade cases underway in the United States, or rumoured to be in preparation, are starting to affect the psychology of foreign producers with respect to potential imports of their products to the United States, particularly in the area of hot rolled coil and discrete plate, key products for IPSCO's Montpelier Steelworks.

At the same time industrial distributors have continued their destocking programs and most have signalled a gradual return to more traditional buying patterns in the second quarter or the third quarter of 1999, depending on their specific circumstances.

IPSCO expects that the load on its Montpelier Steelworks will gradually improve through the year as the result of

120" wide discrete plate from the Montpelier Steelworks satisfies customer demand for wider plate product.



these developments and also expects that there could well be some price improvement at the same time. But because of annual pricing arrangements it would be unrealistic to expect the average prices for these products to improve in a substantial manner prior to the year 2000. Coupled with the improvements in steel mill product shipments of discrete plate and hot rolled coil IPSCO expects that sales from its recently started up Toronto coil processing facility and the coil processing facility in Houston, scheduled for the latter half of the year, will make positive contributions to the company's bottom line, albeit modest ones. In addition the new ultra-highspeed pipemill in Blytheville, Arkansas will have commenced welding pipe in the first quarter of the year and shipments from that operation will also be a positive factor. In Canada, where the major portion of IPSCO's oil country tubular goods shipments are made, the company does not foresee a substantial uptick in drilling activity during the year and has been planning on a continuation of the relatively depressed drilling levels. Nevertheless its capacity is poised to ship more product should that be required. Although this lower level of oil country tubular goods shipments is continuing, 1999 should see a complete year of full capacity operation of IPSCO's large diameter gas transmission pipemaking

facilities to accommodate the Alliance Pipeline project.

Viewed in its entirety 1999 seems to be shaping up to be one of modest improvement over 1998 and consequently IPSCO management is currently "cautiously optimistic". It should not be necessary, however, to point out to shareholders that outside of the United States and Canada the world has been going through a period of economic unrest. IPSCO's fortunes, like all other North American companies, are thus subject to the effect of unforeseen events in the world economy as a whole.



Roger Phillips

President and Chief Executive Officer

26 February 1999



## CORPORATE INFORMATION

### Directors

**John Beddome** (M, N)  
Calgary, Alberta  
Independent Businessman and  
Corporate Director

**Burton Joyce** (M, N)  
Sioux City, Iowa  
President and Chief Executive  
Officer, Terra Industries Inc.

**Thomas Kierans** (A, N)  
Toronto, Ontario  
President and Chief Executive  
Officer, C.D. Howe Institute  
and Corporate Director

**Harold MacKay, Q.C.** (A)  
Regina, Saskatchewan  
Partner, MacPherson Leslie &  
Tyerman

**Bernard Michel**  
Saskatoon, Saskatchewan  
President & Chief Executive  
Officer, Cameco Corporation

**Allan Olson** (A, N)  
Edmonton, Alberta  
President, First Industries  
Corporation

**Roger Phillips** (M)  
Regina, Saskatchewan  
President and Chief Executive  
Officer, IPSCO Inc.

**Arthur Price** (M)  
Calgary, Alberta  
President & Chief Executive  
Officer, Axia Netmedia  
Corporation

**Richard Sim** (A)  
Milwaukee, Wisconsin  
President and Chief Executive  
Officer, Applied Power, Inc.

**Kim Thorson, Q.C.** (M)  
Weyburn, Saskatchewan  
Barrister and Solicitor

**D. Murray Wallace** (A)  
London, Ontario  
Chief Executive Officer,  
Park Street Capital Corporation

### **Committee Membership as of 1 January 1999**

- (M) Member of the Management Resources and Compensation Committee
- (A) Member of the Audit Committee
- (N) Member of the Nomination and Governance Committee

**F. William Woodward** (A)  
Calgary, Alberta  
President and Chief Executive  
Officer, Fransyl Holdings Ltd.

**John Zaozirny, Q.C.** (M)  
Calgary, Alberta  
Counsel, McCarthy Tétrault

### Officers

**John Beddome**  
Calgary, Alberta  
Chairman of the Board

**Roger Phillips**  
Regina, Saskatchewan  
President and Chief Executive  
Officer

**Charles Backman**  
Regina, Saskatchewan  
Senior Vice President and Chief  
Administrative Officer

**David Britten**  
Regina, Saskatchewan  
Vice President and General  
Manager, Tubular Products

**John Comrie, Q.C.**  
Regina, Saskatchewan  
Vice President and Chief Legal  
Officer and Secretary

**Peter MacPhail**  
Regina, Saskatchewan  
Vice President and Chief Technical  
Officer

**Anne Parker**  
Regina, Saskatchewan  
Vice President, Trade Policy and  
Communications

**Joseph Russo**  
Bettendorf, Iowa  
Vice President and General  
Manager, U.S. Steel Mill Products

**Robert Rzonca**  
Phoenix, Arizona  
Senior Vice President and Chief  
Personnel Officer

**Charles Sanida**  
Regina, Saskatchewan  
Vice President and General  
Manager, Canadian Steel Mill  
Products

**David Sutherland**  
Regina, Saskatchewan  
Vice President and General  
Manager,  
Raw Materials and Coil Processing

**John Tulloch**  
Regina, Saskatchewan  
Senior Vice President and Chief  
Commercial Officer

**Edwin Tiefenbach**  
Regina, Saskatchewan  
Vice President and Chief Financial  
Officer

**Robert Eisner**  
Regina, Saskatchewan  
Treasurer

**Douglas Ballou**  
Regina, Saskatchewan  
Assistant Secretary

### Auditors

Ernst & Young LLP

### Listings

The Toronto Stock Exchange  
The New York Stock Exchange

### Registrars and Transfer

#### Agents

Montreal Trust Company  
The Bank of New York

### Stock Symbols

IPS - Common Shares

IPS.PRA - Preferred Shares  
(Toronto Stock Exchange Only)

For information regarding the  
Company refer to the Company's  
web site located at  
**www.ipsco.com**  
or contact:

Anne Parker, Vice President, Trade  
Policy and Communications  
P.O. Box 1670, Regina  
Saskatchewan S4P 3C7  
(306)924-7700  
e-mail: [aparker@ipsco.com](mailto:aparker@ipsco.com)

## SIX YEAR SUMMARY

Year Ended 31 December		1998	1997	1996	1995	1994	1993
OPERATIONS	Coil and Plate Tons Produced	1,466.7	1,058.9	969.4	932.1	978.7	839.4
	Finished Tons Shipped	1,635.7	1,390.6	1,160.1	1,011.1	1,350.3	999.2
	Sales Per Ton *	\$ 672	\$ 738	\$ 694	\$ 699	\$ 628	\$ 574
	Less: Cost excluding interest and income taxes *	561	601	599	596	565	531
	Operating Profit Per Ton * ♦	\$ 111	\$ 137	\$ 95	\$ 103	\$ 63	\$ 43
	Average Number of Employees *	1,721	1,710	1,508	1,438	1,760	1,671
STATEMENT OF EARNINGS	Sales	\$1,099.3	\$1,025.6	\$ 804.9	\$ 706.3	\$ 847.9	\$ 573.2
	Less: Cost of Sales **	894.6	809.6	661.9	560.1	725.4	504.8
	Interest on Long-Term Debt	24.5	8.9	2.0	7.5	16.7	4.7
	Amortization	31.0	19.2	19.2	19.8	16.4	16.8
	Income Before Income Taxes	149.2	187.9	121.8	118.9	89.4	46.9
	Less: Income Taxes	36.0	55.7	38.5	37.2	31.7	18.2
	Net Income	113.2	132.2	83.3	81.7	57.7	28.7
	Accrued Preferred Share Dividends	1.1	—	—	—	—	—
	Net Income Available to Common Shareholders	\$ 112.1	\$ 132.2	\$ 83.3	\$ 81.7	\$ 57.7	\$ 28.7
STATEMENT OF CASH FLOWS	Cash Flow from Operating Activities						
	From Earnings	\$ 144.1	\$ 134.6	\$ 95.3	\$ 98.1	\$ 75.5	\$ 46.1
	From Operating Working Capital	(70.0)	(60.1)	(41.1)	(3.9)	58.6	(78.0)
	Total Dollars	\$ 74.1	\$ 74.5	\$ 54.2	\$ 94.2	\$ 134.1	\$ (31.9)
FINANCIAL POSITION AT YEAR END	Cash Capital Expenditures	\$ 164.6	\$ 244.5	\$ 118.2	\$ 237.8	\$ 174.6	\$ 40.0
	Current Assets	\$ 695.6	\$ 622.5	\$ 529.6	\$ 373.5	\$ 341.8	\$ 556.9
	Less: Current Liabilities	192.0	264.2	177.5	148.1	182.7	127.9
	Working Capital	503.6	358.3	352.1	225.4	159.1	429.0
	Capital and Other Long-Term Assets	1,240.6	1,024.7	874.3	833.6	892.7	281.1
	Total Investment	1,744.2	1,383.0	1,226.4	1,059.0	1,051.8	710.1
	Less: Long-Term Debt	439.3	418.0	385.6	286.3	340.8	58.0
	Deferred Items	91.9	31.3	49.5	53.2	48.7	53.0
	Shareholders' Equity	\$1,213.0	\$ 933.7	\$ 791.3	\$ 719.5	\$ 662.3	\$ 599.1
FINANCIAL RATIOS	Return on Common Shareholders' Equity	11%	15%	11%	12%	9%	6%
	Long-Term Debt as a % of Total Capitalization	27%	31%	33%	28%	34%	9%
	Current Ratio	3.6:1	2.4:1	3.0:1	2.5:1	1.9:1	4.4:1
SHAREHOLDER INFORMATION	Net Income Per Common Share *	\$ 2.75	\$ 3.25	\$ 2.05	\$ 2.01	\$ 1.42	\$ 0.94
	Net Income Per Common Share (Fully Diluted) *	2.63	3.14	2.00	1.98	1.41	0.93
	Dividends Paid Per Common Share *	0.50	0.32	0.32	0.32	0.32	0.32
	Shareholders' Equity Per Common Share *	29.80	22.95	19.46	17.70	16.30	14.76
	Range of Market Value of Common Stock - High *	46.73	45.11	26.23	20.00	18.50	18.27
	- Low *	25.01	21.74	18.93	14.67	14.50	12.80
	Range of Market Value of Preferred Stock - High *	25.80	—	—	—	—	—
	- Low *	24.85	—	—	—	—	—
	Number of Common Shares	40.7	40.7	40.7	40.6	40.6	40.6

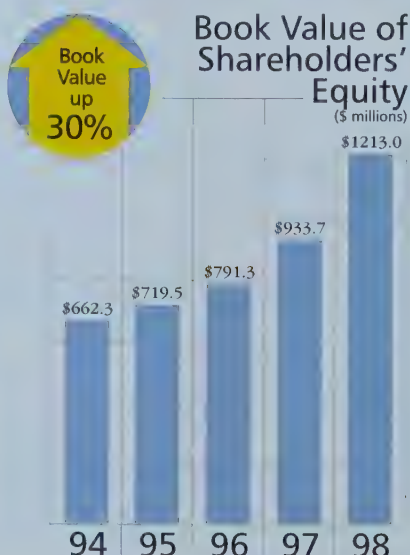
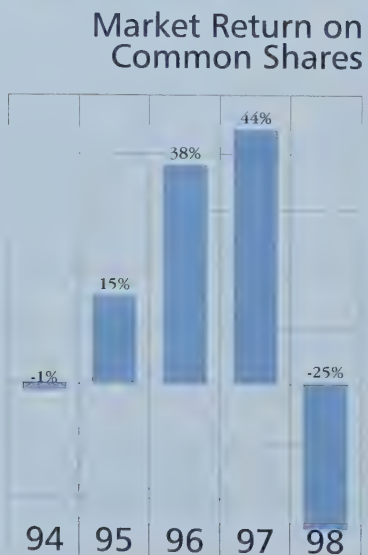
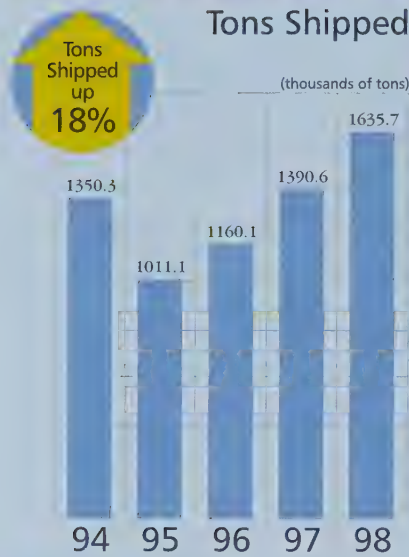
\* Dollars and numbers of shares in millions and tons in thousands except as indicated by asterisk.

\*\* Includes selling, research and administration expenses.

♦ Excludes Montpelier shipments to 3 May 1998.



## FINANCIAL CHARTS



\*Reflects 3-for-2 stock split of March 1998

## IPSCO Inc.

(A Canadian Corporation)

### Head Office

P.O. Box 1670  
Regina, Saskatchewan  
S4P 3C7

### Works

Regina, Saskatchewan  
P.O. Box 1670

Toronto, Ont.  
1051 Tapscott Road

Calgary, Alberta  
7201 Ogdendale Rd.S.E.

Edmonton, Alberta  
6735 - 75th St.

Red Deer, Alberta  
Central Park Road

Surrey, British Columbia  
8250 - 130th St.

Montpelier, Iowa  
1770 Bill Sharp Boulevard

Camanche, Iowa  
2011 - 7th Ave.

Paper Cal Steel Co.  
P.O. Box 64303, St. Paul,  
Minnesota

Geneva, Nebraska  
R.R. 2, Box 30A

Blytheville, Arkansas  
5460 N. State Hwy 137

Houston, Texas  
GreensPort Industrial Park  
13609 Industrial Road

Mobile, Alabama  
12400 Highway 43  
Axis, Alabama

## Principal Subsidiaries

IPSCO Saskatchewan Inc.  
(A Canadian Corporation)

IPSCO Ontario Inc.  
(A Canadian Corporation)

IPSCO Direct Inc.  
(An Alberta Corporation)

IPSCO Steel Inc.  
(A Delaware Corporation)

IPSCO Enterprises Inc.  
(A Delaware Corporation)

IPSCO Tubulars Inc.  
(A Delaware Corporation)

Paper Cal Steel Co.  
(A Delaware Corporation)

Paper Cal Steel (Texas) Co.  
(A Delaware Corporation)

IPSCO Steel (Alabama) Inc.  
(An Alabama Corporation)

General Scrap Partnership  
(61% owner as at 31 December 1998)

*On peut obtenir la version  
française de ce rapport sur  
demande écrite adressée à:*

IPSCO Inc. Communications  
C.P. 1670  
Regina (Saskatchewan) S4P 3C7



# IPSCO Locations



## Sales Phone Numbers

Tubular Products

Coil and Discrete Plate

Cut-To-Length Products

## Canada

1-800-667-1616

1-800-663-0777

1-800-945-9772

## United States

1-800-950-4772

1-800-340-5566

1-800-383-9031

1999

# MANAGEMENT DISCUSSION & ANALYSIS AND AUDITED FINANCIAL STATEMENTS



# **MANAGEMENT DISCUSSION AND ANALYSIS**

**IPSCO INC.  
1998**

**MANAGEMENT DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

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# MANAGEMENT DISCUSSION AND ANALYSIS

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The following commentary should be read in conjunction with the consolidated financial statements of the Company. Certain statements in this commentary constitute "forward-looking statements". (See "Note Regarding Forward-Looking Statements" on the inside front cover of the Company's 1998 Annual Report).

# MANAGEMENT DISCUSSION AND ANALYSIS

## GENERAL

IPSCO Inc. (the "Company" or "IPSCO") is a producer of steel products.

Market estimates, consumption figures and other measures of economic and commercial activity (other than Company specific information) used in this report are based on an analysis of figures from a variety of external sources and should be interpreted only as broad indicators. All price changes discussed herein are calculated based on the currency of the relevant sales transaction.

In this document unless the context otherwise indicates, references to IPSCO or the Company include both IPSCO Inc., and its wholly-owned or controlled subsidiaries.

## RESULTS OF OPERATIONS

**YEAR ENDED 31 DECEMBER 1998 COMPARED WITH YEARS ENDED 31 DECEMBER 1997 AND 31 DECEMBER 1996.**

### Sales

#### Summary

Sales increased by seven percent to \$1.10 billion in 1998 after increasing by 27 percent to \$1.03 billion in 1997 from \$804.9 million in 1996.

#### 1998 Compared to 1997



Shipments at 1,635,700 tons were 18 percent greater than 1997 and constituted a record. These figures and tonnage figures throughout this document include tonnage produced during the commissioning period for the new steelworks in Iowa.

Sales revenues (which exclude the sales during the Montpelier commissioning phase which ended on 3 May 1998) were \$1.10 billion, seven percent higher than the \$1.03 billion recorded a year earlier.

Average selling price was \$705 per ton, down \$38 per ton or five percent from the year earlier period, including all shipments. The apparent decrease reflects both weaker prices in many sectors and a lower percentage of further fabricated products but was mitigated somewhat by the drop in value of the Canadian dollar as certain products are priced and sold in U.S. dollars.



# MANAGEMENT DISCUSSION AND ANALYSIS

Shipments to Canadian based customers fell to 820,600 tons, a drop of just over 20 percent from the 1,033,000 tons of a year earlier. IPSCO's Canadian producing locations currently are situated such that they can efficiently serve only Western Canada. Sales were down in that region for a variety of reasons. Oil and gas well drilling dropped about 33 percent which in turn affected the amount of steel used for down-hole applications, small diameter line pipe, and oil storage tanks. Sales of oil country tubular goods by IPSCO and flat rolled steel to tank manufacturers, distributors, and a major pipe producer fell in consequence. Agricultural equipment makers were hurt by lower sales to a hard-pressed farm economy and thus consumed less steel. In British Columbia a generally under-performing economy meant lower steel demand from most industries.

In contrast IPSCO shipments to U.S. based customers rose 128 percent to 815,100 tons reflecting the availability of discrete plate and wide coil from the new Montpelier, Iowa steelworks and increased sales of further fabricated products. Expressed as a percentage they amounted to 49.8 percent or virtually half of the company's total shipments. Despite the fact that 1998 was a strong year for American economic activity, IPSCO's U.S. shipments failed to take full advantage of its new steel making capacity due to equipment difficulties and a surge of lower priced offshore imports.

## ***Steel Mill Products***

Shipments at 619,900 tons were 79 percent higher than the previous year principally as a result of the Montpelier Steelworks ramp-up.

Canadian tonnage sales were down 40 percent due to weaknesses in Western Canadian commodity driven sectors and were particularly affected by lower shipments of hot rolled coil to a major producer of oil country tubular goods.

U.S. destined shipments rose 448 percent as the new Montpelier Steelworks completed its commissioning period despite problems with the contractor and was able to offer a range of discrete plate and wide hot rolled coil products. While the increase in U.S. steel mill product shipments on a year-over-year basis seems impressive it must be noted that IPSCO took over its new steelworks from the contractor in November 1997 and sales in 1998 did not keep up with the designed production capability. Equipment performance difficulties were encountered and in addition part way through the third quarter demand by distributors for these products was substantially down as they reduced their high inventory levels accumulated through acquisitions of what the company believes are unfairly priced offshore imports. The reduced demand by distributors has been felt by American flat rolled steel producers and its effects continued through the fourth quarter.

Because most of IPSCO's third party sales capability in this grouping was not in existence in 1997 detailed statistical analysis of the average prices on a year-over-year basis is meaningless. It goes without saying that transaction prices have eroded substantially, however, as the result of such lower priced imports.

## ***Further Fabricated Products***

Shipments of further fabricated steel products from IPSCO's manufacturing facilities fell three percent to 1,015,800 tons from 1,043,700 tons in 1997.

As with steel mill products, shipments of further fabricated products to Canadian based customers fell while American destined ones grew.

## MANAGEMENT DISCUSSION AND ANALYSIS

In Canada oil country tubular goods and small diameter line pipe dropped 48 percent reflecting reduced drilling rates. Mid-size line pipe was off 31 percent. On the other hand large diameter gas transmission pipe was up 187 percent as several large diameter pipeline projects proceeded. Taking product mix into account prices of these relatively sophisticated products destined for energy related uses were essentially steady in Canadian dollar terms although lower in U.S. dollars.

Canadian shipments of less sophisticated tubular products, primarily hollow structural tubing and standard pipe, were down 20 percent as demand in western Canada fell due mostly to weakness in the commodity driven sectors. Unit prices slipped seven percent.

Cut-to-length steel from the Company's coil processing facilities for Canadian customers fell 27 percent due to the same weakness. Prices were off an average of three percent.

The bulk of IPSCO's U.S. tubular sales are destined for other than energy related applications. Shipments of hollow structurals and standard pipe increased 11 percent despite weakening markets as the company enhanced its market share. Unit prices fell seven percent.

American customers saw 30 percent higher shipments of cut-to-length steel from the Company's coil processing operations. Prices expressed in Canadian dollar terms were modestly up, but would have shown erosion if reported in U.S. dollars.

### **1997 Compared to 1996**

In 1997 tonnage shipped at 1,390,600 tons and sales of over \$1 billion were a record in both volume and revenue. Tonnage was 20 percent higher than 1996 which, in turn, excluding bar products discontinued in 1995, was 20 percent higher than 1995.

Demand for IPSCO products exceeded once again the Company's internal steelmaking capability and price levels were adjusted to ensure that any sales could economically support the cost of steel purchases used by IPSCO's value-added manufacturing operations. The effect of such a pricing policy was to divert IPSCO's sales to geographic and product areas giving the best profits and thus year-to-year comparisons do not necessarily reflect demand changes but rather product mix adjustments serving to maximize the Company's rate of return.

While the American economy was more robust in overall terms, real economic growth in Canada exceeded that of the United States as Canada started to catch up somewhat with the U.S. This, combined with a boom in natural resources in Canada, saw IPSCO's tonnage sales rise 27 percent in Canada and just over three percent in the United States. Canadian customers accounted for 74 percent of IPSCO sales with the balance being purchased by American-based companies.

The average unit selling price for IPSCO increased some seven percent. While many products saw modest price improvement, downward price pressure was felt where IPSCO's value-added products competed against manufacturers who were highly dependent on imported steel and in garden variety steel mill products which are easily imported. Offsetting this import related pressure was a product mix which saw a greater proportion of higher priced items.



# MANAGEMENT DISCUSSION AND ANALYSIS

## *Steel Mill Products*

Steel mill products include hot rolled coil and discrete plate. Shipments of 346,900 tons were 29 percent higher than the previous year. Both coil and discrete plate saw double digit increases. Canadian sales were bolstered by high demand for coil from third party tubular and coil processing operations which enjoyed Canada's energy boom. Plate shipments were impacted by a boost in U.S. transactions late in the year as the Montpelier Steelworks made its initial shipments. A combination of price increases and decreases throughout the year meant that on a full year-over-year comparison basis the average unit price advanced slightly more than two percent.

## *Further Fabricated Products*

Shipments of further fabricated steel products from IPSCO's manufacturing facilities increased 17 percent to 1,043,700 tons from 891,000 tons in 1996.

Oil country tubular goods (used as well casing and to channel oil and gas to the surface) and small diameter pipe (used to hook up wells to transmission systems) saw a 54 percent rise, large diameter spiral weld gas transmission pipe was down 17 percent while mid-range line pipe (16 to 24 inches in diameter) was almost unchanged.

IPSCO's growth in oil country tubulars and small diameter line pipe manifested itself in both Canada and the U.S. but Canada saw the lion's share. IPSCO's American sales of these products were constrained because its Iowa and Nebraska producing locations are relatively remote from the energy producing areas.

Although there was a flurry of announcements with respect to large diameter oil and gas transmission line projects, many of the resultant pipe orders were for post-1997 production. IPSCO was successful in attracting some 1997 business but it was concentrated mostly in the last third of the year.

Average unit selling prices of energy related tubulars advanced almost 10 percent on a year-to-year basis, reflecting strengthening across the board, but particularly in large diameter transmission pipe.

Non-energy related further fabricated products saw tonnage shipments of 405,000 tons, a two percent increase overall compared to 1996. While these shipments were historically strong for IPSCO, coming after the previous year's 23 percent increase, and thus 25 percent over 1995 levels, the Company did eschew less than optimal profitability items in the hollow structural and standard pipe areas in favour of energy tubular opportunities. Cut-to-length shipments were up nine percent while hollow structurals and standard pipe were down four and 13 percent respectively as compared to the year before.

Average unit selling prices for non energy related further fabricated products as a whole were up just over two percent on a year-over-year basis as low priced imports of steel feedstock used by competing tubular and cut-to-length producers resulted in downward price pressures.

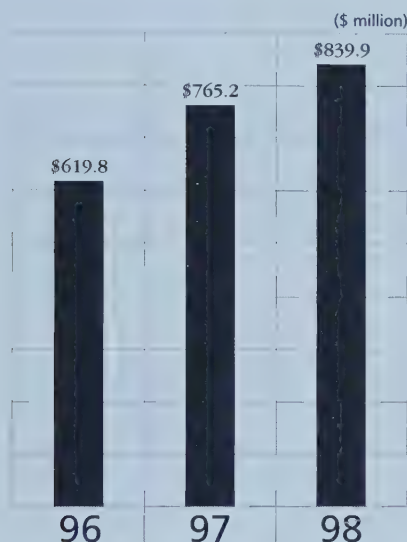
# MANAGEMENT DISCUSSION AND ANALYSIS

## Cost of Sales

### Summary

Cost of sales increased by 10 percent to \$839.9 million in 1998 after increasing by 23 percent to \$765.2 million in 1997 from \$619.8 million in 1996.

### 1998 Compared to 1997



IPSCO establishes operating levels for its various facilities designed to maximize the profit for the company as a whole. The two steelworks serve third party markets for steel mill products based on whichever one can make the best profit for the company as a whole. Because freight is a high cost the distribution of orders between the facilities is often based on geographic considerations although some products or size ranges are unique to one facility or the other. The raw material for the further fabricating operations can be a steel mill product originating in one of IPSCO's steelworks or sourced from another steel company depending on which alternative generates the greatest incremental profit. When demand is high the normal outcome will be to have each steelworks operating at effective full capacity with steel purchases also at a high level. The further fabricating facilities are then operated at the maximum capacity that increases profit at the margin. When demand drops steel purchases will be reduced as long as a decision to produce in IPSCO's own steelworks does not erode profitability due to logistic considerations.

The first half of the year required a high level of third party steel purchases by the company and saw the Regina Steelworks at full capacity. As the capability of Montpelier increased during the year, the steel distributors almost simultaneously substantially reduced their purchases from all sources because of excess inventories accumulated as the result of the availability of what the Company believes are unfairly priced offshore imports. IPSCO too substantially reduced its own steel purchases because of reduced demand from customers, cut back somewhat steel production at Regina, and was forced to substantially under-utilize the Montpelier Steelworks in the fourth quarter.

### Raw Materials

In 1998 IPSCO consumed some \$441 million of raw materials and energy in such forms as steel scrap, electricity, natural gas, alloy materials, carbon electrodes, refractories, lime, and a miscellany of other items.

IPSCO owns 61 percent of the General Scrap Partnership that operates scrap collection and processing facilities in western Canada and several contiguous American states. IPSCO also owns 100 percent of IPSCO Direct, a scrap collection company in Alberta. During the year 50 percent of the Regina Steelworks' scrap needs were filled by General Scrap and IPSCO Direct.

The average cost of scrap consumed by both the Montpelier and Regina Steelworks fell as the year progressed. The decrease between the fourth quarters of 1997 and 1998 was 21 percent.



# MANAGEMENT DISCUSSION AND ANALYSIS

## *Steelmaking*

Combined steel production at the two steelworks was 1,541,900 slab tons. Regina produced just under one million tons while for reasons previously explained Montpelier fell just short of six hundred thousand tons.

Capacity utilization at Regina was 91 percent. In the fourth quarter Regina took a 19 day shutdown which permitted supply/demand balancing while at the same time facilitating the installation of capital equipment. Because of the start-up nature of Montpelier in 1998 capacity utilization figures are not meaningful. In 1999 these statistics will be reported.

Production of flat rolled steel in coil and discrete plate form totalled 1,466,700 tons at the two facilities.

The number of man hours required to produce an average ton of coil and discrete plate at the Regina Steelworks was .82, only marginally different than the .81 recorded in 1997. Since the Montpelier Steelworks completed its six-month startup and commissioning phase in May the man hours per ton to produce coil and discrete plate amounted to .84. While this is already an impressive number by industry standards management believes it can fall below .5 once the facility reaches its design capacity.

## *Tubular Production*

In stark contrast to 1997 when high demand for oil country tubular goods in Canada strained the capability of IPSCO's small diameter electric resistance weld pipe mills, a sharp fall in drilling activity left them under utilized. Increases in market share in non-energy related tubulars in the United States and the high demand on the Company's large diameter pipe mills due to several gas transmission projects mitigated the effects of this decline. The net result however was that total tubular production at 654,500 tons fell short of the record of 736,000 tons established in 1997.

The Calgary, Red Deer, and Edmonton, Alberta small diameter pipe facilities saw overall utilization of 37 percent compared to 77 percent a year earlier. Calgary and Red Deer operated at reduced shift levels and Edmonton was idle from May onward.

Average utilization for the Regina large diameter spiral mills increased to 88 percent from 44 percent in 1997. The upgrading of the spiral mills was completed in May and fine-tuning proceeded throughout the balance of the year. Product yields and production rates have met expectations. The 16 to 24-inch diameter ERW mill in Regina once again saw only sporadic use with a utilization rate of 25 percent.

IPSCO's U.S. pipe mills average utilization increased to 69 percent from 33 percent with the completion of modifications at both the Camanche, Iowa and Geneva, Nebraska facilities.

The man hours per ton required to produce one ton of finished pipe or tubing from one ton of steel averaged 2.55, up only slightly from the 2.49 required a year earlier.

## *Coil Processing*

IPSCO's coil processing facilities convert the Company's own hot rolled coil or that purchased from other manufacturers to "cut-to-length" steel in thicknesses of one sixteenth of an inch to one half inch and lengths up to 62 feet. In 1998 the processing operations at Regina; St. Paul, Minnesota; and Surrey, British Columbia

# MANAGEMENT DISCUSSION AND ANALYSIS

handled a total of 301,800 tons. New facilities are under construction at Houston, Texas and Toronto, Ontario and are expected to commence production in 1999.

## 1997 Compared to 1996

The operating level of a particular IPSCO unit ultimately depends on economic factors such as overall demand and potential profitability. In the past, with demand being low, IPSCO manufactured all the steel it needed to serve both third party customers and its captive tubular products and coil processing facilities, except for a few size ranges and grades for which it was not equipped to produce. When demand exceeds internal steelmaking capability, steel production has been supplemented by steel purchased from other steel producers. But because of the high freight costs inherent in the location of some IPSCO plants relative to other steel producers the amount of purchased steel which can be used profitably is not unlimited.

In 1997 conditions were such that IPSCO could run its own steelmaking at virtually full capacity and also purchase some 475,000 tons of steel from third parties, up from 295,000 tons a year earlier.

Therefore the increase in cost of sales in 1997, though mainly the result of higher volume sold was also the result of a higher volume of steel purchased for further processing, offset by the effects discussed in the following paragraphs.

High equipment utilization often means high levels of efficiency and this was the general rule throughout the IPSCO group.

The cost of a ton of mill edge coil at the Regina Steelworks decreased by just over two percent.

Man hours per ton required to produce a ton of coil or discrete plate at the Regina Steelworks averaged .81, down from .85 a year earlier. The Company believes that given the age of the Regina Steelworks this figure is excellent and surpassed in the industry by only the newer vintage thin slab mini-mills.

## *Raw Materials*

Excluding its U.S. steel facility, which had only recently been turned over by the general contractor, IPSCO consumed some \$270 million of raw materials and energy in 1997. These included iron and steel scrap, electricity, natural gas, alloy materials, carbon electrodes, refractories and lime, to a miscellany of other items.

Prior to April 1997 IPSCO generally sourced these materials from others but recently has taken an ownership position in scrap collection and processing for a part of its needs. When a subsidiary, Western Steel Limited closed its small Calgary steel reinforcing bar facility in 1995 IPSCO formed a subsidiary, IPSCO Direct Inc., to collect some of the material which Western Steel had been consuming, for forwarding to the Regina Steelworks. Subsequently, IPSCO entered into an agreement to purchase by 2002 the major scrap collector and processor that supplies the Regina steelmaking facilities from its scrap collection and processing operations in western Ontario, the prairie provinces, and the contiguous U.S. states. In April 1997 IPSCO took the first step in that process by becoming a 51 percent owner of the General Scrap Partnership.

Scrap processed through the captive operations, IPSCO Direct and General Scrap, accounted for 46 percent of IPSCO Regina's scrap needs in 1997.



# MANAGEMENT DISCUSSION AND ANALYSIS

The average cost of scrap consumed in both the Regina and Montpelier Steelworks decreased by a slight amount (less than 3/4 percent).

## *Steelmaking*

Steel production at the Regina and Montpelier Steelworks combined amounted to 1,137,900 slab tons with Regina producing over one million tons on its own. In 1996 the only operating steelworks located in Regina, produced 1,004,200 slab tons.

Capacity utilization at the Regina Steelworks at 92 percent was lower than the previous year figure of 93 percent as, once again, operations were held down in part by power outages as the supplying utility experienced a rash of maintenance problems. The Montpelier Steelworks has only been under IPSCO's full control since 3 November 1997 and during its startup and commissioning phase utilization figures are not a good measure (slab output for the November-December 1997 period was about 25 percent of capacity). Under an early use agreement with the contractor IPSCO was able to sporadically produce some slabs over the June to October 1997 period. These were shipped primarily to Regina for rolling to finished product, replacing to some extent the steel production lost due to electrical outages.

Production of flat rolled steel in coiled and discrete plate form totalled 1,058,900 tons with slightly over one million tons coming from Regina, compared to 969,400 tons in the previous year, with the balance being produced in Montpelier from 3 November to year-end.

## *Tubular Production*

In 1997 IPSCO's Canadian small diameter pipe mills operated at record capacity levels so despite somewhat lower production figures than in 1996 for large diameter spiral pipe, and shutdowns in the U.S. for major capital improvements, a record 736,000 tons of tubular products were produced compared to 559,000 tons in 1996.

The Calgary, Red Deer and Edmonton, Alberta small diameter facilities saw utilization rates increase in 1997 to 77 percent on a combined basis, from 52 percent in 1996, as demand for oil and gas well casing and tubing, and small diameter line pipe used for oil and gas collection and connections to the larger diameter transmission lines, was at an historic high. To assist in meeting the demand, finishing capacity for casing in Canada was doubled. Edmonton Works reached the highest operating level for small diameter pipe since 1973.

The large diameter spiral pipe mills in Regina were held back in 1997 by lack of demand until August but after that time worked full out, save for shutdown periods needed for equipment upgrades. Average utilization for the Company's spiral mills rose to 33 percent in 1997 from 32 percent in 1996. The 16 to 24-inch diameter ERW mill in Regina saw sporadic utilization in 1997 at 27 percent, down slightly from 30 percent in 1996.

Utilization of the Company's U.S. pipe mills was restrained by shutdowns for major upgrades at both the Geneva, Nebraska and Camanche, Iowa locations in the first half of the year and subsequently by normal startup learning curves. Average utilization for 1997 was unchanged at 33 percent. When fully on stream the combined capacity of these two mills will be some 345,000 tons.

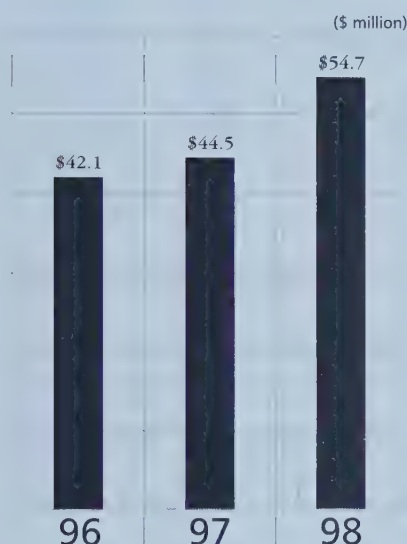
Cost control was in evidence as the cost of converting one ton of steel coil to one ton of pipe increased an average of less than one percent over 1996. Man hours per ton required to produce one ton of finished product from one ton of steel fell almost five percent from 2.61 a year earlier to 2.49.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Coil Processing

IPSCO's coil processing facilities in Regina; Surrey, British Columbia; and St. Paul, Minnesota primarily convert steel coil from both the Company's own production and from that purchased from other steel manufacturers to "cut-to-length" steel, typically in thicknesses from one sixteenth of an inch to one half of an inch and in lengths of up to 62 feet. In 1997 these facilities handled a total of 279,000 tons, an increase of 24,000 tons from the previous year, despite the distraction of major facility upgrades taking place in Regina and St. Paul.

## Selling, Research and Administration Expenses



Selling, research and administration expenses increased by 23 percent to \$54.7 million in 1998 after increasing by 6 percent to \$44.5 million in 1997 from \$42.1 million in 1996.

The largest portion of the increase in 1998 was due to inclusion of costs from the Montpelier works. Legal and consulting fees were also higher in part as a result of increased financing activities.

In 1997, the largest portion of the increase was due to the increased level of sales by the Company plus general inflation in the cost elements within this group of expenditures. Research and development expenses and consulting fees were also higher.

In addition in both years public relations spending was higher mainly due to the higher level of corporate philanthropic spending.

## Interest on Long-Term Debt

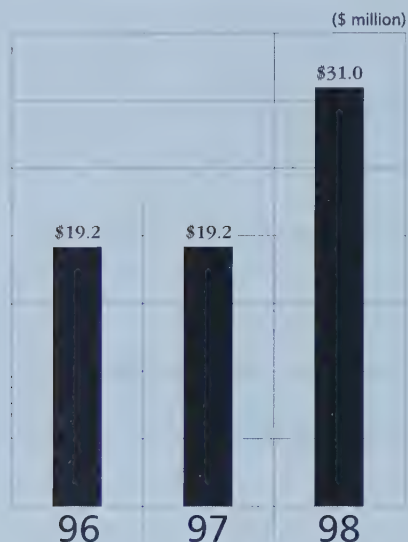


Interest on long-term debt increased by 177 percent to \$24.5 million in 1998 from 1997 because interest ceased to be capitalized on the Montpelier Steelworks on 3 May 1998 and a full year's interest was incurred on the U.S. \$14.7 million Solid Waste Disposal Revenue Bonds.

In 1997 interest on long-term debt increased by 342 percent from 1996 because there was a full year's interest on the \$100 million 10-year unsecured debentures issued in October 1996 and additional interest was incurred from the issue of the Solid Waste Disposal Revenue Bonds in June 1997.

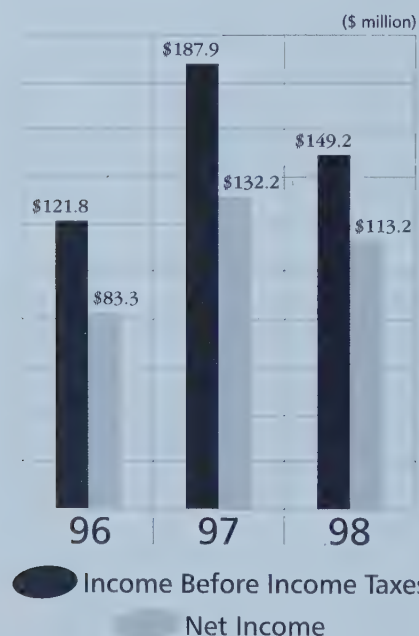


## Amortization of Capital Assets



Amortization of capital assets increased by 61 percent to \$31.0 million in 1998 from \$19.2 million in 1997 and 1996 as amortization of the Montpelier Steelworks commenced.

## Income Before Income Taxes and Net Income



As a result of the changes described in previous sections, income before income taxes fell by 21 percent to \$149.2 million in 1998 after having risen by 54 percent to \$187.9 million in 1997 from \$121.8 million in 1996. Consequently, net income fell by 14 percent to \$113.2 million in 1998 after having risen by 59 percent to \$132.2 million in 1997 from \$83.3 million in 1996.

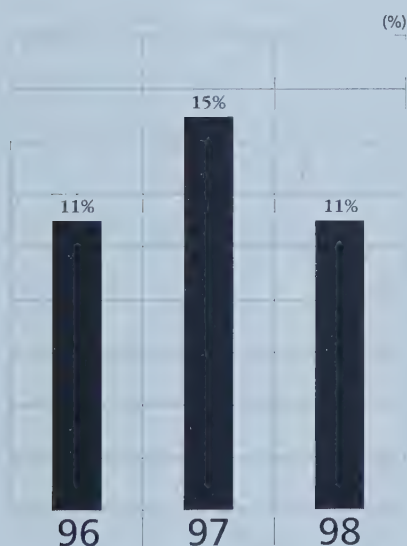
## MANAGEMENT DISCUSSION AND ANALYSIS

### Basic Earnings Per Common Share



Basic Earnings per common share fell 15 percent to \$2.75 in 1998 after having risen 59 percent to \$3.25 in 1997 from \$2.05 in 1996.

### Return on Common Shareholders' Equity



The return on common shareholders' equity fell to 11 percent in 1998 after having increased to 15 percent in 1997 from 11 percent in 1996.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Quarterly Results

Results by quarter for 1998, 1997 and 1996 were as follows:

	1998	1997	1996
<b>Tons Shipped</b>	(thousands of tons)		
1st Quarter	471.4	319.0	243.7
2nd Quarter	441.7	304.4	276.9
3rd Quarter	384.6	355.3	319.0
4th Quarter	<u>338.0</u>	<u>411.9</u>	<u>320.5</u>
Total	<u>1,635.7</u>	<u>1,390.6</u>	<u>1,160.1</u>

<b>Sales</b>	(millions of dollars)		
1st Quarter	\$ 283.6	\$ 228.6	\$ 168.1
2nd Quarter	286.9	224.5	183.8
3rd Quarter	282.7	274.1	220.2
4th Quarter	<u>246.1</u>	<u>298.4</u>	<u>232.8</u>
Total	<u>\$1,099.3</u>	<u>\$1,025.6</u>	<u>\$ 804.9</u>

<b>Net Income Available to Common Shareholders</b>	(millions of dollars)		
1st Quarter	\$ 35.1	\$ 30.5	\$ 16.7
2nd Quarter	28.4	30.2	16.8
3rd Quarter	26.1	33.4	23.2
4th Quarter	<u>22.5</u>	<u>38.1</u>	<u>26.6</u>
Total	<u>\$ 112.1</u>	<u>\$ 132.2</u>	<u>\$ 83.3</u>

<b>Basic Earnings Per Common Share</b>			
1st Quarter	\$ .86	\$ .75	\$ .41
2nd Quarter	.70	.74	.41
3rd Quarter	.64	.82	.58
4th Quarter	<u>.55</u>	<u>.94</u>	<u>.65</u>
Total	<u>\$ 2.75</u>	<u>\$ 3.25</u>	<u>\$ 2.05</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Fully Diluted Earnings Per Common Share

1st Quarter	\$ .83	\$ .73	\$ .40
2nd Quarter	.68	.72	.41
3rd Quarter	.62	.79	.55
4th Quarter	<u>.50</u>	<u>.90</u>	<u>.64</u>
Total	<u>\$ 2.63</u>	<u>\$ 3.14</u>	<u>\$ 2.00</u>

## Basic Earnings Per Common Share - Trailing 12 Months

1st Quarter	\$ 3.36	\$ 2.39	\$ 1.85
2nd Quarter	\$ 3.32	\$ 2.72	\$ 1.73
3rd Quarter	\$ 3.14	\$ 2.96	\$ 1.86
4th Quarter	\$ 2.75	\$ 3.25	\$ 2.05

## Fully Diluted Earnings Per Common Share - Trailing 12 Months

1st Quarter	\$ 3.24	\$ 2.33	\$ 1.82
2nd Quarter	\$ 3.20	\$ 2.64	\$ 1.70
3rd Quarter	\$ 3.03	\$ 2.88	\$ 1.82
4th Quarter	\$ 2.63	\$ 3.14	\$ 2.00



## Analysis of IPSCO's Total Capitalization

The annualized rate of return on common shareholders' equity was 15 percent in the first quarter, 12 percent in the second quarter, 10 percent in the third quarter and 9 percent in the fourth quarter. For the year, the return on equity decreased to 11 percent from 15 percent in 1997. This level of return is substantially higher than the inflation rate which was just over 1.0 percent in Canada and just over 1.6 percent in the United States.

In 1998 IPSCO issued \$150.0 million of 5.50 percent Cumulative Redeemable First Preferred Shares. As there was no addition to long-term debt in 1998, the increase in long-term debt to \$439.3 million in 1998 from \$418.0 million in 1997 was due primarily to a decline in the Canadian dollar relative to the U.S. dollar.

In 1997 IPSCO issued U.S. \$14.7 million of 6.0 percent Solid Waste Disposal Revenue Bonds. These bonds, combined with a decline in the Canadian dollar relative to the U.S. dollar, caused total long-term debt to increase to \$418.0 million in 1997 from \$385.6 million in 1996.

# MANAGEMENT DISCUSSION AND ANALYSIS

## SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

IPSCO, a Canadian company, uses Canadian dollars as the basis of measurement and follows Canadian GAAP in reporting financial results. The differences in the reported results that would have resulted from using United States as opposed to Canadian GAAP are summarized in note 21 to the 1998 financial statements.

## FINANCIAL REPORTING

Effective 1 January 1999, IPSCO will be reporting its financial results in United States dollars. The decision to change the currency of its financial statements has been made to reflect the Company's growing American presence. With the completion of the Montpelier, Iowa steelworks, approximately 70 percent of the value of the Company's fixed assets are located in the United States.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

During 1998, working capital provided by operations amounted to \$144.0 million and non-cash operating working capital increased by \$70.0 million which resulted in a net of \$74.0 million of cash being generated from operating activities. The payment of that portion of 1997 corporate income taxes that did not have to be paid in installments, and was paid in 1998, was the main reason for the increase of non-cash operating working capital. A total of \$145.6 million in cash, net of expenses, was raised through the issuance of preferred shares. In addition, \$.2 million was raised from common shares issued pursuant to the share option plan. Dividends to holders of common shares amounted to \$20.3 million. Expenditures for capital assets were \$161.6 million, \$3.0 million was spent to increase IPSCO's ownership share of General Scrap Partnership to 61 percent, \$1.7 million of long-term debt was retired, and the effect of exchange rate changes resulted in an increase in cash of \$9.3 million. Consequently, cash increased by \$42.5 million to \$204.3 million in 1998.

With the downturn in demand for tubulars in the Canadian oil patch, the completion of the Montpelier Steelworks, and upgrades at the Camanche and Geneva pipe mills the need for further enhancing capacity at existing facilities was minimal. Capital spending fell from the previous year but nevertheless with three new production sites under construction for further fabricating activities and projects justified for quality and environmental reasons, capital spending on a cash basis reached \$164.6 million during 1998 including \$75.5 million for the Montpelier Steelworks.

Work progressed at the Regina Steelworks on the installation of an \$11 million ladle metallurgy furnace that is designed to improve working conditions and operating costs. Completion is scheduled for early 1999.

In May IPSCO announced that it would establish a 300,000-ton annual capacity coil processing facility in Houston, Texas. At an estimated cost of U.S. \$23 million it will be the first such operation in the region incorporating a temper mill with a cut-to-length line. The project is essentially a duplicate of the Toronto facility constructed during 1998 and which is expected to commence commercial operations in the first quarter of 1999. The Houston operation is expected to start up in the last half of 1999.



# MANAGEMENT DISCUSSION AND ANALYSIS

Work on the Blytheville, Arkansas, U.S. \$25 million, 300,000-ton annual capacity ultra high-speed pipe mill continued on schedule with second quarter of 1999 commencement of commercial production expected.

The \$28 million upgrade of the Regina rolling mill and the three spiral pipe mills was successfully completed. This new investment was made to enable the Regina large diameter facilities to produce the thicker and higher grade line pipe steels being used in new pipeline facilities in North America. This added capability is being utilized in the production of pipe for the Alliance Pipe Line project.

## United States Steelworks

The turnover of the Montpelier Steelworks which occurred on 3 November 1997 had initially been anticipated in the first quarter of 1996. The delay in the turnover of the Montpelier Steelworks resulted in additional interest expense, labour, standby fees and other costs, all of which were capitalized prior to 4 May 1998, and which were the principal reasons for the capital cost rising from the previously estimated amount of U.S. \$400 million to U.S. \$445 million. Discussions with the contractor with regard to IPSCO claims for compensation because of late delivery of the project, warranty, and other issues continue.

Effective 4 May 1998, six months after the turnover of operation of the Montpelier Steelworks, the Company ceased capitalizing related interest and start-up costs pertaining to the Montpelier Steelworks.

During the ensuing months numerous modifications involving production shutdowns were undertaken by the contractor at its cost. Diligence on the part of operating personnel ensured the quality of shipped material has been excellent. However, the contractor has yet to meet the final performance tests called for in the contract.

In December IPSCO announced that it had selected Mobile, Alabama as the site of a second U.S. steelworks. The 1,250,000-ton annual capacity mill will closely parallel the Montpelier facility, recycling steel scrap and producing discrete plate and wide hot rolled coil in plate and near plate thicknesses. Management believes the United States Gulf region is the fastest growing consumer of plate in America and that the new facility should be able to displace substantial tonnages of imported steel coming into the region, provided that the imported steel is fairly priced. Construction is planned to commence in the first quarter of 1999 with commissioning of the new mill expected to start in the first quarter of 2001.

## Capital Structure

IPSCO strives to maintain a strong balance sheet and a flexible capital structure. The Company believes that the principal indicators of its credit worthiness are its long-term debt to total capitalization percentage, its level of interest coverage, and the degree to which covenants in its existing lending agreements may affect its future ability to access debt markets.

Covenants with respect to IPSCO's lending agreements require the Company to maintain, at all times, a minimum shareholders' equity of \$723 million plus 50 percent of net income earned after 31 December 1998 and a minimum current asset to current liability ratio of 1½:1. With respect to these covenants at 31 December 1998, the Company exceeded the required minimum by \$490 million or 68 percent in the case of shareholders' equity and by approximately 140 percent in the case of the ratio of current assets to current liabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS

To issue new long-term debt, the percentage that the Company's long-term debt is to the sum of total long-term debt plus shareholders' equity (Total Capitalization) cannot exceed 45 percent immediately after the new debt has been issued. The Company's long-term debt to Total Capitalization percentage at the end of 1998 decreased to 27 percent from 31 percent at the end of 1997. This means that at the end of 1998 the Company could have incurred an additional \$551 million in long-term debt and still have been able to meet this requirement.

Even though there are no interest coverage tests relating to IPSCO's long-term debt, the number of times that the Company's earnings before interest and taxes can cover its interest on long-term debt (Interest Coverage) is an important indication of its ability to issue additional long-term debt.

Interest on long-term debt charged to earnings is described on page 11.

Interest incurred, capitalized and charged to earnings in 1998, 1997, and 1996 are as follows:

	1998	1997	1996
	(millions of dollars)		
Incurred	\$ 32.0	\$ 30.0	\$ 23.0
Capitalized	<u>7.4</u>	<u>21.1</u>	<u>21.0</u>
Charged to earnings	<u>\$ 24.6</u>	<u>\$ 8.9</u>	<u>\$ 2.0</u>

Consequently, IPSCO's interest coverage decreased to 5.4 times in 1998 from 6.6 times in 1997 on an interest incurred basis. On an interest charged to earnings basis, interest coverage decreased to 7.1 times in 1998 from 22.2 times in 1997.

## Liquidity

In the Company's view the principal indicators of IPSCO's liquidity are its cash position, the accounts receivable that can be sold through its existing securitization agreement, the amounts remaining available to be drawn on its bank line of credit and the Junior Subordinated Notes, and the excess of its current assets over its current liabilities.

During 1998 the Company, through a wholly-owned subsidiary, entered into an agreement that will permit it to issue at any time and from time to time prior to 10 June 2000, up to a maximum of U.S. \$100 million Junior Subordinated Notes maturing 31 December 2038. The Junior Subordinated Notes bear interest in arrears payable semi-annually at 8.5 percent for the 10-year period ending 10 December 2008, 9.5 percent for the 11th to 15th year and increasing by an additional 2 percent every five years thereafter. The Junior Subordinated Notes are redeemable, in whole or in part by the Company, at any time, at the principal amount plus accrued and unpaid interest to the date of redemption.

At 31 December 1998 no Junior Subordinated Notes had been issued. On 17 February 1999 the Company withdrew the final shortform shelf prospectus filed on 26 August 1998, which qualified 6,000,000 common shares for distribution.



# MANAGEMENT DISCUSSION AND ANALYSIS

The Company has a securitization agreement arranged through a major Canadian bank whereby it can sell up to \$50 million of its accounts receivable. At 31 December 1998 no accounts receivable had been sold.

The Company has available \$250 million by way of a bank line of which 70 percent is committed to December 2001 and 30 percent is subject to annual renewal. The Company's line of credit can be drawn at prime rates or less, in either Canadian or United States funds, subject to maintaining the same current assets to current liability ratio and long-term debt to total capitalization percentages that are required to raise further long-term debt. At 31 December 1998 no amount was drawn on the bank line other than letters of credit of approximately \$11.6 million.

In 1998, IPSCO's cash position increased by \$42.5 million to \$204.3 million and the ratio of its current assets to its current liabilities increased to 3.6:1. Comparable numbers for 1997 were \$161.8 million and 2.4:1.

As of 31 December 1998, the estimated cost to complete approved capital programs was \$732.7 million of which \$21.6 million was committed. This includes \$647.4 million capital spending for the second U.S. steel mill to be located in Mobile, Alabama. As at 15 February 1999 a further \$504.5 million has been committed in connection with the Mobile Steelworks. In addition, U.S. \$1.1 million of IPSCO's long-term debt will have to be repaid in 1999.

Assuming continuing profitability, IPSCO expects that it will be able to finance these expenditures from its existing cash position, cash from operations, bank line of credit, and drawings on the Junior Subordinated Notes, but may also consider additional financing in the future.

From time to time IPSCO makes use of interest rate swaps and foreign currency contracts to manage the Company's interest rate and foreign exchange risks. At the end of December 1998, the Company did not have any such contracts outstanding.

## Inflation

The company believes that inflation had no material impact on its cost of sales or net income in 1998, 1997 or 1996.

## BUSINESS RISKS AND UNCERTAINTIES

### Risks and Uncertainties

In the Company's opinion, weakness in the Canadian or United States economies could result in a lessening of demand for steel products. In addition, North American interest rates, the level of drilling in the Canadian energy industry, exchange rates, and the level of demand outside of North America for steel products are some of the other factors that can be expected to impact upon the demand for the Company's products. The level of drilling in the energy industry tends to be driven by the market price for oil and natural gas.

Of concern for domestic steel producers in Canada and in the U.S. especially, is the current imbalance in supply and demand resulting primarily from foreign imports and, to a lesser extent, increased domestic capacity. Steel imports from a number of countries are believed by management to be largely in violation of U.S. trade laws and World Trade Organization agreements prohibiting unfair dumped prices and government subsidies.

Shipments of foreign hot rolled steel entering the U.S. in January 1998 constituted 22 percent of apparent demand. By November the figure was 55 percent. Comparable Canadian figures are 21 percent and 32 percent. In tonnage terms the apparent steel consumption in 1998 is estimated to have been just over 156 million tons for the U.S. and Canada combined, of which almost 41 million tons were imports from other steel producing regions of the world. While demand in the U.S. and Canada remained strong through 1998 such a rise in imports resulted in lower general realized prices throughout the year.

A number of competitors have announced they are proceeding with, or have brought into production, facility modernizations or expansions in the U.S. and Canada including new "mini-mill" facilities. The level of steel imports and the additional production from Canadian and American steel facilities may well be important factors over the next several years.

IPSCO's Montpelier Steelworks and its recently announced Mobile, Alabama steelworks are expected to provide IPSCO with an enhanced opportunity to provide steel products to its U.S. customers. With the startup of the Mobile Steelworks expected in two years, IPSCO will once again be faced with the usual issues and risks associated with bringing on stream a major greenfield steel plant as the Company attempts to demonstrate that the plant can be operated in a sustained and cost effective basis with equipment, as installed.

The Mobile Steelworks will present the Company with new challenges as the startup and commissioning phases are completed and commercial operations begin. In addition, satisfactory market penetration will have to be accomplished in the Gulf coast region.

On the supply side, where considered appropriate, IPSCO has entered into long-term contractual arrangements with providers of essential raw materials for the new mill.

Environmental laws and regulations are rapidly changing, and the enforcement practices of regulatory agencies are becoming more stringent. The Company monitors and evaluates the state of its environmental compliance on an ongoing basis and continues to discuss environmental issues as they arise with regulatory authorities, as well as undertaking remediation activities where required. During 1998 non-routine and capital spending on programs aimed at environmental controls and avoiding potential environmental hazards amounted to \$9.2 million at IPSCO's fully operational facilities in Canada and a further \$6.1 million on its facilities in the U.S. Substantial costs are also incurred annually in the operation of environmental programs.



## Impact of the Year 2000 on the Company's Computer Systems and Devices

The problem surrounding the Year 2000 results from the fact that some computer programs have been written using two digits rather than four to define the applicable year. Any of the Company's computer programs or equipment that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or incorrect calculations causing disruptions of operations, including among other things, a temporary inability to process transactions or engage in normal production activities.

The Company's assessment of shop floor devices and business systems affected by Year 2000 compliance issues was undertaken by a team composed of external consultants, operating personnel, engineering professionals and information system professionals. The inventory and assessment of both shop floor and business systems and equipment was completed by the end of July 1998.

As at 31 January 1999, less than six percent of shop floor devices which are required to be made Year 2000 compliant remain to be addressed. Part of the process to determine compliance includes a test phase which will include rolling the dates forward on certain shop floor devices and determining that such devices will operate on 1 January 2000. The Company anticipates that the remaining six percent of non-compliant shop floor devices will be year 2000 compliant by the end of 1999. The Company is also investigating contingency arrangements such as manual operation of non-compliant equipment.

Certain business systems were determined to be non-compliant and as a result were essentially upgraded, reprogrammed or replaced. This process was substantially completed at the end of 1998. Following completion of the resolutions proposed for the shop floor devices and systems, the Company will address any unforeseen problems encountered during the last two quarters of 1999.

As an additional component of the Company's Year 2000 preparedness assessment, key suppliers were requested to provide an assessment of their Year 2000 preparedness and a time line for obtaining compliance for those that were not Year 2000 compliant. The results of the questionnaire forwarded to suppliers indicated that less than four percent were not planning to be Year 2000 compliant by the end of 1999. The Company is investigating contingency arrangements such as alternative suppliers and increased inventories to deal with situations of non-compliance.

The Company currently expects that its expenses in connection with Year 2000 compliance, which include consulting fees and internal personnel costs associated with assessment and rectification of Year 2000 deficiencies, excluding capital costs, will be \$2 million, of which approximately \$1.4 million has been spent. Based upon the assessments that have been completed to date, the Company has not identified any equipment that requires replacement in order to be Year 2000 compliant which would involve capital expenditures of a material nature. Expenditures for non-equipment related items are expensed for accounting purposes.

There can be no assurance that the Company has anticipated every possible contingency or that contingency plans adopted by the Company will adequately address all supply or operational problems related to Year 2000. While the Company believes that it currently has sufficient resources to implement the changes proposed as a result of the preparedness assessment, there can be no assurance that the Company will be able to retain or obtain the necessary programming resources. Neither can there be any assurance that the Company's computer systems and those of its suppliers and customers will be Year 2000 compliant on a timely basis. If all Year 2000 problems are not identified and remediated in a timely manner, there can be no assurance that this will not have a material adverse effect on the Company.

## OUTLOOK

As this report is being prepared it is apparent that the trade cases underway in the United States, or rumoured to be in preparation, are starting to affect the psychology of foreign producers with respect to potential imports of their products to the United States, particularly in the area of hot rolled coil and discrete plate, key products for IPSCO's Montpelier Steelworks.

At the same time industrial distributors have continued their destocking programs and most have signalled a gradual return to more traditional buying patterns in the second quarter or the third quarter of 1999, depending on their specific circumstances.

IPSCO expects that the load on its Montpelier Steelworks will gradually improve through the year as the result of these developments and also expects that there could well be some price improvement at the same time. But because of annual pricing arrangements it would be unrealistic to expect the average prices for these products to improve in a substantial manner prior to the year 2000. Coupled with the improvements in steel mill product shipments of discrete plate and hot roll coil IPSCO expects that sales from its recently started up Toronto coil processing facility and the coil processing facility in Houston, scheduled for the latter half of the year, will make positive contributions to the company's bottom line, albeit modest ones. In addition the new ultra-highspeed pipemill in Blytheville, Arkansas will have commenced welding pipe in the first quarter of the year and shipments from that operation will also be a positive factor. In Canada, where the major portion of IPSCO's oil country tubular shipments are made, the Company does not foresee a substantial uptick in drilling activity during the year and has been planning on a continuation of the relatively depressed drilling levels. Nevertheless its capacity is poised to ship more product should that be required. Although this lower level of oil country tubular goods shipments is continuing, 1999 should see a complete year of full capacity operation of IPSCO's large diameter gas transmission pipemaking facilities to accommodate the Alliance Pipeline project.

Viewed in its entirety 1999 seems to be shaping up to be one of modest improvement over 1998 and consequently IPSCO management is currently "cautiously optimistic". It should not be necessary, however, to point out to shareholders that outside of the United States and Canada the world has been going through a period of economic unrest. IPSCO's fortunes, like all other North American companies, are thus subject to the effect of unforeseen events in the world economy as a whole.









## Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of IPSCO Inc., and all information in this report, were prepared by management, which is responsible for its integrity and objectivity.

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include some estimates based upon management's judgments. The significant accounting policies, which management believes appropriate for the company, are described in Note 2 to the financial statements. Financial and operating data presented elsewhere in the annual report are consistent with the information contained in the financial statements.

The integrity and reliability of IPSCO's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. Internal accounting controls are continually monitored by an internal audit staff through ongoing reviews and comprehensive audit programs. IPSCO regularly communicates throughout the organization the requirement for employees to maintain high ethical standards in their conduct of the company's affairs.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee of the Board. The Board of Directors annually appoints this Audit Committee which is comprised of directors who are neither employees of IPSCO nor of companies affiliated with the company. This committee meets regularly with management, the head of the internal audit department, and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the Audit Committee. Following its review of the financial statements and annual report and discussions with the shareholders' auditors, the Audit Committee reports to the Board of Directors prior to the Board's approval of the financial statements and annual report. The Audit Committee recommends the appointment of the company's external auditors, who are appointed by the company's shareholders at its annual meeting.

Ernst & Young LLP, Chartered Accountants, the shareholders' auditors, have performed an independent audit in accordance with generally accepted auditing standards and have attested to the fairness, in all material respects, of the presentation of the financial statements. Their report follows.



Roger Phillips  
President and Chief Executive Officer  
25 January 1999



Edwin Tiefenbach  
Vice President and Chief Financial Officer

## Auditors' Report

To the Shareholders of IPSCO Inc.

We have audited the consolidated statements of financial position of IPSCO Inc. as at 31 December 1998 and 1997 and the consolidated statements of income and retained earnings, and cash flows for each of the years in the three year period ended 31 December 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at 31 December 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three year period ended 31 December 1998 in accordance with accounting principles generally accepted in Canada.

*Ernst & Young LLP*

Regina, Canada  
25 January 1999

Chartered Accountants

## Comments by Auditors' for U.S. Readers on Canada - U.S. Reporting Difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the company's financial statements, such as the change described in Note 5 to the financial statements. Our report to the shareholders dated 25 January 1999 is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

*Ernst & Young LLP*

Regina, Canada  
25 January 1999

Chartered Accountants




# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998


IPSCO Inc. Consolidated Statements of Financial Position  
As at 31 December  
(thousands of Canadian dollars)

	Notes	1998	1997
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 204,344	\$ 161,846
Accounts receivable			
Trade less allowances	3	138,508	145,013
Other		39,994	3,551
Inventories	4	252,316	281,573
Prepaid expenses		2,755	2,235
Income taxes allocated to future years	5	57,690	28,261
		<u>695,607</u>	<u>622,479</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued charges	6	154,358	178,973
Accrued payroll and related liabilities		28,469	30,226
Income and other taxes payable		—	46,284
Current portion of long-term debt	7	1,687	1,573
Other current liabilities		7,489	7,111
		<u>192,003</u>	<u>264,167</u>
<b>WORKING CAPITAL</b>		<u>503,604</u>	<u>358,312</u>
Capital assets	8	1,207,779	1,020,982
Deferred charges		4,608	3,736
Deferred pension asset	9	622	—
Income taxes allocated to future years	5	27,621	—
		<u>1,240,630</u>	<u>1,024,718</u>
<b>TOTAL INVESTMENT</b>		<u>1,744,234</u>	<u>1,383,030</u>
Long-term debt	7	439,342	417,964
Deferred pension liability	9	—	7,225
Income taxes allocated to future years	5	91,903	24,191
		<u>531,245</u>	<u>449,380</u>
<b>SHAREHOLDERS' EQUITY</b>		<u>\$ 1,212,989</u>	<u>\$ 933,650</u>
Derived from			
Preferred shares	10	<u>\$ 151,148</u>	\$ —
Common shares	11	390,234	389,987
Subordinated notes	12	—	—
Retained earnings	13	608,798	513,177
Cumulative translation adjustment	14	62,809	30,486
		<u>\$ 1,212,989</u>	<u>\$ 933,650</u>
Commitments and contingencies	19&22		

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board

  
John Beddome, Director

  
Roger Phillips, Director

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# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

IPSCO Inc. Consolidated Statements of Income and Retained Earnings  
Years Ended 31 December  
(thousands of Canadian dollars except per share data)

	Notes	1998	1997	1996
Revenue				
Sales		<u>\$ 1,099,320</u>	<u>\$ 1,025,642</u>	<u>\$ 804,898</u>
Expenses				
Cost of sales, exclusive of the following items		839,892	765,210	619,771
Selling, research and administration		54,732	44,458	42,082
Interest on long-term debt		24,538	8,865	2,007
Amortization of capital assets		30,975	19,212	19,225
		<u>950,137</u>	<u>837,745</u>	<u>683,085</u>
Income before income taxes		149,183	187,897	121,813
Income taxes	5	<u>35,942</u>	<u>55,724</u>	<u>38,515</u>
NET INCOME		113,241	132,173	83,298
Accrued dividends on preferred shares including part VI.I tax	10	<u>1,148</u>	<u>—</u>	<u>—</u>
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS		<u>\$ 112,093</u>	<u>\$ 132,173</u>	<u>\$ 83,298</u>
EARNINGS PER COMMON SHARE - Basic		<u>\$ 2.75</u>	<u>\$ 3.25</u>	<u>\$ 2.05</u>
- Fully Diluted		<u>\$ 2.63</u>	<u>\$ 3.14</u>	<u>\$ 2.00</u>
RETAINED EARNINGS AT BEGINNING OF YEAR, as previously reported		\$ 513,177	\$ 394,018	\$ 323,729
Cumulative effect of change in accounting policy	5	<u>6,522</u>	<u>—</u>	<u>—</u>
RETAINED EARNINGS AT BEGINNING OF YEAR, as adjusted		519,699	394,018	323,729
NET INCOME		<u>113,241</u>	<u>132,173</u>	<u>83,298</u>
		632,940	526,191	407,027
Accrued dividends on preferred shares including part VI.I tax		1,148	—	—
Dividends on common shares (\$.50 per share - 1998, \$.32 per share - 1997 and 1996)		20,349	13,014	13,009
Share issue costs	10	<u>2,645</u>	<u>—</u>	<u>—</u>
RETAINED EARNINGS AT END OF YEAR		<u>\$ 608,798</u>	<u>\$ 513,177</u>	<u>\$ 394,018</u>

The accompanying notes are an integral part of the consolidated financial statements.



# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

IPSCO Inc. Consolidated Statements of Cash Flows  
Years Ended 31 December  
(thousands of Canadian dollars)

	Notes	1998	1997	1996
<b>CASH DERIVED FROM (APPLIED TO)</b>				
Operating activities				
Working capital provided by operations	15	\$ 144,040	\$ 134,590	\$ 95,364
Change in non-cash operating working capital	15	(69,971)	(60,051)	(41,128)
		<u>74,069</u>	<u>74,539</u>	<u>54,236</u>
Financing activities				
Common share dividends		(20,349)	(13,014)	(13,009)
Issue of preferred shares (net of issue costs)	10	145,592	-	-
Common shares issued pursuant to share option plan	11	247	485	124
Issue (repayment) of long-term debt	7	(1,726)	18,733	98,495
Debt issue expenses		-	(390)	(1,447)
		<u>123,764</u>	<u>5,814</u>	<u>84,163</u>
Investing activities				
Expenditures for capital assets	16	(161,626)	(228,117)	(118,198)
Proceeds from sale of assets		-	-	8,564
Investment	17	(3,022)	(16,425)	-
Reduction in long-term securities		-	92,531	60,181
		<u>(164,648)</u>	<u>(152,011)</u>	<u>(49,453)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>9,313</u>	<u>6,803</u>	<u>229</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>42,498</b>	<b>(64,855)</b>	<b>89,175</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b><u>161,846</u></b>	<b><u>226,701</u></b>	<b><u>137,526</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b><u>\$ 204,344</u></b>	<b><u>\$ 161,846</u></b>	<b><u>\$ 226,701</u></b>

The accompanying notes are an integral part of the consolidated financial statements.

# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

IPSCO Inc. Notes to Consolidated Financial Statements  
For the Years Ended 31 December  
(thousands of Canadian dollars except per share data)

## 1. Nature of Operations

IPSCO Inc. is a producer of steel products. The company's products are sold primarily in Canada and the United States.

The company currently employs approximately 1,900 people, of whom approximately 37% are non-unionized personnel and approximately 63% are represented by trade unions. The company is a party to separate collective bargaining agreements with a term to 31 July 2002 with locals of the United Steelworkers of America (USWA) which represent unionized employees in Regina, Calgary and Edmonton. These employees account for approximately 89% of the company's unionized employees.

In 1998 no customer accounted for more than 10% of sales. In 1997 one significant customer accounted for 15% of sales and in 1996 one significant customer accounted for 12% of sales. At 31 December 1998 one customer represented 33% of the accounts receivable balance. At 31 December 1997 two customers represented 16% and 10% of the accounts receivable balance.

## 2. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and include certain estimates based on management's judgments. These estimates affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from those estimates. The accounting policies followed by the company also conform in all material respects with accounting principles generally accepted in the United States, except as described in note 21.

### BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its subsidiaries. Significant inter-company transactions are eliminated on consolidation.

### FOREIGN CURRENCIES

#### a) Self-sustaining foreign subsidiaries

The company's foreign subsidiaries are accounted for as self-sustaining operations and have been translated into Canadian dollars on the following basis:

- i) Assets and liabilities at the rate of exchange in effect at the end of the year;
- ii) Revenue and expenses at the monthly average exchange rate.

All adjustments arising from foreign currency translation of foreign subsidiaries are included as a separate component of shareholders' equity.

#### b) Other foreign currency assets and liabilities

Other foreign denominated monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the end of the year. Non-monetary assets and liabilities are translated at the rates prevailing at the transaction dates. Revenue and expense items are translated at the monthly average exchange rate. Differences arising on translation are recorded in determining income for the year.



## c) Hedges

Adjustments arising from foreign currency translation of long-term debt which has been designated as a hedge of self-sustaining foreign operations are included as a separate component of shareholders' equity.

## CASH EQUIVALENTS

Cash equivalents are securities of the government of Canada and its provinces, government of the United States, banks, and other corporations, with a maturity of less than three months when purchased. These highly liquid securities are short-term, with a fixed interest rate.

## INVENTORIES

Inventories are valued at the lowest of average cost, replacement cost and net realizable value.

## INCOME TAXES

Effective 01 January 1998, the company adopted the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Prior to 01 January 1998, income taxes were accounted for by the deferral method of income tax allocation. Future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the rate in effect in the year the difference originated.

## CAPITAL ASSETS

Capital assets are stated at cost. For major projects under construction, the company capitalizes interest based on expenditures incurred to a maximum of interest costs on debt specifically raised for the project and any debt outstanding at the time the project commences.

Amortization is provided on the straight-line basis at the following annual rates:

Buildings	4%
Machinery and Equipment	4% to 10%

Amortization is provided on all assets acquired as they come into production. For certain major projects, the units-of-production method is used until a substantial level of production is reasonably sustained.

## REPAIR AND MAINTENANCE COSTS

Repair and maintenance costs are expensed as incurred except for the estimated cost of major overhauls and repairs which are accrued over the period between the major overhauls and repairs.

## DEFERRED CHARGES

Financing costs relating to long-term debt are deferred and amortized over the term of the related debt and included in interest expense for the year.

# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

## PENSION EXPENSE AND DEFERRED PENSION BALANCE

The cost of pension benefits earned by the employees covered by defined benefit plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, terminations, and retirement ages of plan members. Adjustments for plan amendments, changes in assumptions and experience gains and losses are charged to operations over the expected average remaining service life of the employee group which is approximately 13 years. The costs of pension benefits for defined contribution plans are charged to operations as contributions become due.

## EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of common shares outstanding during the year.

Fully diluted earnings per common share assumes the conversion of preferred shares to common shares described in note 10 and the exercise of options described in note 11.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

### *Cash and cash equivalents*

The carrying value of cash and cash equivalents approximates its fair value.

### *Long-term debt*

The fair value of the company's long-term debt has been estimated based on current market prices. Where no market value is available, an estimate based on current rates for similar instruments with similar maturities has been used to approximate fair value.

## 3. Accounts Receivable

On 23 May 1997, the company entered into an agreement to sell accounts receivable, on a revolving basis, up to a maximum value of \$50,000, with limited recourse. At 31 December 1998, \$Nil (1997 - \$Nil) of accounts receivable have been sold pursuant to this agreement. The agreement may be terminated under certain conditions at any time by the company or the purchaser and in any event, on 23 May 2002.

## 4. Inventories

	1998	1997
Finished goods	\$ 85,976	\$ 99,556
Work-in-process	65,417	76,298
Raw materials	56,147	61,370
Supplies	44,776	44,349
	<u>\$ 252,316</u>	<u>\$ 281,573</u>



# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

## 5. Income Taxes

Effective 01 January 1998, the company adopted the new recommendations of The Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The cumulative effect of adopting the liability method of tax allocation effective 01 January 1998 was a one time increase in income taxes allocated to future years and retained earnings of \$6,522. The result of adopting the new recommendations was to increase 1998 net income by \$13,170.

a) The geographical components of income before income taxes are summarized below:

	1998	1997	1996
Canada	\$ 141,943	\$ 184,211	\$ 109,217
Foreign	7,240	3,686	12,596
	<u>\$ 149,183</u>	<u>\$ 187,897</u>	<u>\$ 121,813</u>

b) The provision for income taxes is summarized as follows:

	Liability Method	Deferral Method	
	1998	1997	1996
Current			
Canada	\$ 26,211	\$ 71,570	\$ 45,156
Foreign	2,951	2,714	—
	<u>29,162</u>	<u>74,284</u>	<u>45,156</u>
Deferred			
Canada	19,648	(14,703)	(11,135)
Foreign	(12,868)	(3,857)	4,494
	<u>6,780</u>	<u>(18,560)</u>	<u>(6,641)</u>
	<u>\$ 35,942</u>	<u>\$ 55,724</u>	<u>\$ 38,515</u>

c) The sources of the current year deferred income taxes are as follows:

	Liability Method	Deferral Method	
	1998	1997	1996
Excess (deficiency) of capital cost allowance over amortization	\$ 39,527	\$ 3,661	\$ (250)
Excess (deficiency) of contributions over pension expense	2,943	(71)	327
Deferred amounts	(21,806)	(18,696)	(12,213)
Operating losses	(13,170)	(3,821)	—
Utilization of operating losses	—	—	4,518
Inventory carrying costs	(385)	105	18
Other	(329)	262	959
	<u>\$ 6,780</u>	<u>\$ (18,560)</u>	<u>\$ (6,641)</u>

# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

- d) Income tax expense differs from the amount computed by applying the corporate income tax rates (Canadian Federal and Provincial) to income before income taxes. The reason for this difference is as follows:

	Liability Method	Deferral Method	
	1998	1997	1996
Corporate income tax rate	45.3%	45.3%	45.1%
Provision for income taxes based on corporate income tax rate	\$ 67,580	\$ 85,117	\$ 54,962
Increase (decrease) in taxes resulting from			
Manufacturing and processing profit	(19,095)	(21,906)	(5,811)
Large corporation tax	1,068	799	(889)
Income taxed at different rates in foreign jurisdictions	(12,761)	(11,224)	(10,665)
Other	(850)	2,938	918
	<u>\$ 35,942</u>	<u>\$ 55,724</u>	<u>\$ 38,515</u>

- e) Income taxes allocated to future years are comprised of the following:

	Liability Method
	1998
Future tax assets:	
Accounting provisions not deductible for tax purposes	\$ 44,390
Capitalized general and administration	13,300
Net operating loss carry forwards	21,256
Other	6,365
Total future tax assets	<u>85,311</u>
Future tax liabilities:	
Capital cost allowance in excess of amortization	75,907
Pension contributions in excess of expense	230
Foreign exchange gain/loss on debt	9,975
Other	5,791
Total future tax liabilities	<u>91,903</u>
Net income taxes allocated to future years	<u>\$ 6,592</u>

- f) At 31 December 1998, foreign subsidiaries of the company had accumulated net operating losses carried forward of \$50,800 for which the future tax benefits have been recorded. The related tax benefits can be carried forward and, subject to certain limitations, offset against income tax expense arising in future periods up to the year 2018.

CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

6. Accounts Payable and Accrued Charges

Included in accounts payable and accrued charges is an accrual to cover the costs of major overhauls and repairs. Timing of these expenditures is dictated by future events and market conditions. At 31 December 1998 and 1997, the amounts accrued are \$11,485 and \$15,017 respectively.

7. Debt

		Carrying Value		Fair Value	
		1998	1997	1998	1997
a) Long-term debt					
10.58%	\$7,700 U.S. (1997 - \$8,800) unsecured note, payable in seven equal annual instalments with the next payment due 01 September 1999	\$ 11,806	\$ 12,580	\$ 13,589	\$ 14,342
6.94%	\$100,000 U.S. unsecured notes, payable in five equal annual instalments commencing 01 April 2000	153,330	142,960	156,604	144,651
7.32%	\$100,000 U.S. unsecured notes, payable in seven equal annual instalments commencing 01 April 2003	153,330	142,960	161,809	147,000
7.80%	Unsecured debentures, maturing and payable 01 December 2006	100,000	100,000	108,050	109,660
6.00%	\$14,715 U.S. unsecured loan, maturing and payable 01 June 2007. The company has the option at maturity to extend the term of the loan to no later than 01 June 2027 at an interest rate to be negotiated	22,563 441,029	21,037 419,537	23,127 463,179	22,193 437,846
Less current portion of long-term debt		(1,687)	(1,573)	(1,941)	(1,793)
		\$ 439,342	\$ 417,964	\$ 461,238	\$ 436,053



# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

## b) Operating lines of credit

At 31 December 1998, the company had bank lines of credit aggregating \$250,000 (1997 - \$250,000) of which \$Nil (1997 - \$Nil) had been drawn down other than letters of credit of \$11,600 (1997 - \$11,000). Bank lines of credit are comprised of a \$175,000 (1997 - \$175,000) revolving term facility that expires 31 December 2001 and a \$75,000 (1997 - \$75,000) demand operating facility. Both facilities bear interest at either the Canadian prime rate or the U.S. base rate and are not secured by specific assets of the company.

At 31 December 1998, a partnership in which the company has a 61% (1997 - 51%) interest had short-term bank lines of credit aggregating \$17,000 (1997 - \$17,000) of which \$Nil (1997 - \$1,173) had been drawn down. These bank lines of credit are reviewed at least annually and are revolving operating and term facilities that bear interest at either the Canadian prime rate or the U.S. base rate and are secured by certain assets of the partnership.

## 8. Capital Assets

	1998			1997		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land and land improvements	\$ 79,924	\$ -	\$ 79,924	\$ 6,678	\$ -	\$ 6,678
Buildings	98,587	40,006	58,581	64,525	37,455	27,070
Machinery and equipment	1,035,894	219,942	815,952	440,546	191,126	249,420
Construction in progress	219,957	-	219,957	709,350	-	709,350
	<u>1,434,362</u>	<u>259,948</u>	<u>1,174,414</u>	<u>1,221,099</u>	<u>228,581</u>	<u>992,518</u>
Assets held for sale or redeployment	<u>51,796</u>	<u>18,431</u>	<u>33,365</u>	<u>46,655</u>	<u>18,191</u>	<u>28,464</u>
	<u>\$ 1,486,158</u>	<u>\$ 278,379</u>	<u>\$ 1,207,779</u>	<u>\$ 1,267,754</u>	<u>\$ 246,772</u>	<u>\$ 1,020,982</u>

Certain capital assets, which are not employed in production, have been segregated pending a decision on ultimate disposition and are carried at an amount not exceeding management's best estimate of net realizable value.

During the year, \$7,422 (1997 - \$21,149, 1996 - \$20,976) of interest costs were capitalized.

## 9. Pension Plans

The company provides retirement benefits for substantially all of its employees under several defined benefit and defined contribution plans. The defined benefit plans provide benefits that are based on a combination of years of service and an amount that is either fixed or based on final earnings. The defined contribution plans restrict the company's matching contributions to 5% of each participating employee's annual earnings.

The company's policy with regard to the defined benefit plans is to fund the amount that is required by governing legislation.

Net pension expense attributable to the company's pension plans for 1998, 1997 and 1996 included the following components:

	1998	1997	1996
Defined benefit plans			
Service cost for benefits earned	\$ 3,880	\$ 3,566	\$ 4,175
Interest cost on benefit obligations	9,112	8,044	8,625
Expected return on plan assets	(9,235)	(7,969)	(7,527)
Net amortization	174	(111)	1,004
	<u>3,931</u>	<u>3,530</u>	<u>6,277</u>
Defined contribution plans	1,598	1,000	745
Net pension expense	<u>\$ 5,529</u>	<u>\$ 4,530</u>	<u>\$ 7,022</u>

The following table sets forth the defined benefit plans' funded status and amount included in the deferred pension balance in the company's statement of financial position at 31 December 1998 and 1997:

	1998	1997
Benefit obligation at beginning of year	\$ 107,639	\$ 101,995
Service cost for benefits earned	3,880	3,566
Interest cost on benefit obligation	9,112	8,044
Plan amendments	125	10,693
Actuarial gains	(1,290)	(3,381)
Benefit payments	(5,017)	(13,278)
Benefit obligation at end of year	<u>114,449</u>	<u>107,639</u>
Market value of plan assets at beginning of year	104,220	100,773
Actual return on plan assets	9,287	11,356
Employer contributions	7,986	4,820
Plan participants' contributions	269	549
Benefit payments	(5,017)	(13,278)
Market value of plan assets at end of year	<u>116,745</u>	<u>104,220</u>
Funded status at end of year	2,296	(3,419)
Items not recognized in earnings		
Unrecognized transition gains	(2,408)	(2,855)
Unrecognized experience gains	(18,082)	(21,891)
Unrecognized amendments to the plan	18,816	20,940
Deferred pension asset (liability)	<u>\$ 622</u>	<u>\$ (7,225)</u>

# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

Amounts applicable to the company's pension plans with accumulated benefit obligation in excess of plan assets are:

	1998	1997
Projected benefit obligation	\$ 71,663	\$ 67,427
Accumulated benefit obligation	\$ 71,312	\$ 66,291
Market value of plan assets	\$ 66,854	\$ 57,777

The discount rate and long-term rate of return on assets used in determining the pension expense, experience gains and funded status information shown above was 8.5% at 31 December 1998 and 1997. Variances between such estimates and actual experience, which may be material, are amortized over the employees' average remaining service life.

## 10. Preferred Shares

### a) Authorized

The company is authorized to issue unlimited first and second preferred shares. The first preferred shares rank in priority to the second preferred shares and the common shares as to payment of dividends and the distribution of assets. The first and second preferred shares may be issued in series and the directors of the company may fix, before issuance, the further rights, privileges, restrictions and conditions attached thereto.

In 1998, the company issued first preferred shares, series 1 (the "Series 1 Preferred Shares") that had a price of \$25.00 per Series 1 Preferred Share with a fixed cumulative preferential dividend as and when declared by the directors equal to 5.50% per annum payable quarterly on the 15th of February, May, August and November of each year.

The Series 1 Preferred Shares are non-voting. However, if the company fails to declare and pay eight quarterly dividends, consecutive or otherwise, and so long as any of those dividends are in arrears, the Series 1 Preferred Shares become voting.

The Series 1 Preferred Shares may be redeemed in whole or in part by the company at any time on or after 15 May 2004 for \$25.00 per share plus accrued and unpaid dividends. On or after 15 May 2004, the company may elect to convert each Series 1 Preferred Share into that number of common shares determined by dividing \$25.00 plus accrued and unpaid dividends by the greater of \$3.00 and 95 percent of the market price of the common shares. In addition, on or after 15 August 2004, the holders have the option to convert each Series 1 Preferred Share into that number of common shares determined by dividing \$25.00 plus accrued and unpaid dividends by the greater of \$3.00 and 95 percent of the market price of the common shares subject to the company's right to redeem the Series 1 Preferred Shares, arrange sales to substitute purchasers or a combination thereof.

Unless all dividends are paid to the most recent dividend date, the company may not 1) pay cash dividends on shares ranking junior to the Series 1 Preferred Shares; 2) redeem, purchase or otherwise retire shares ranking on parity with or junior to the Series 1 Preferred Shares; or 3) redeem, purchase or otherwise retire less than all of the Series 1 Preferred Shares.



# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

The Series 1 Preferred Shares, including accrued and unpaid cumulative dividends, have been classified as equity since the company has the unrestricted ability to settle the Series 1 Preferred Shares and related dividends by issuing its own common shares. The related share issue expenses of \$4,408 (\$2,645 net of income taxes) have been charged to retained earnings.

## b) Issued

Following is the continuity of Series 1 Preferred Shares outstanding:

	1998	
	Number	Amount
Issued during the year for cash	6,000,000	\$ 150,000
Accrued dividends	—	1,148
Balance at end of year	<u>6,000,000</u>	<u>\$ 151,148</u>

## 11. Common Shares

### a) Authorized

The company is authorized to issue unlimited common shares.

### b) Issued

Following is the continuity of common shares outstanding:

	1998		1997		1996	
	Number	Amount	Number	Amount	Number	Amount
Balance at beginning of year	40,687,761	\$ 389,987	40,655,511	\$ 389,502	40,648,011	\$ 389,378
Exercise of share options	<u>15,675</u>	<u>247</u>	<u>32,250</u>	<u>485</u>	<u>7,500</u>	<u>124</u>
Balance at end of year	<u>40,703,436</u>	<u>\$ 390,234</u>	<u>40,687,761</u>	<u>\$ 389,987</u>	<u>40,655,511</u>	<u>\$ 389,502</u>

### c) Stock Split

On 08 December 1997, the Board of Directors of the company declared a three-for-two stock split, effected in the form of a stock dividend, paid on or about 09 March 1998 to shareholders of record at the close of business on 28 February 1998. All option, share and per share amounts in these financial statements give retroactive effect to this stock split.

# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

## d) Share Option Plan

The company has a share option plan under which common shares are reserved for directors, officers and employees. These options, which are exercisable within ten years, are to be granted at a price established by the Board of not less than 100% of the last Toronto Stock Exchange board lot trading price prior to the day of the grant. The options outstanding at 31 December 1998, which expire between 2000 and 2008 (weighted average remaining contractual life is 7 years) are exercisable in a price range of \$10.33 to \$46.25 per share.

Following is the continuity of granted options outstanding:

	1998		1997		1996	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance at beginning of year	1,839,300	\$ 20.54	1,547,925	\$ 17.35	1,285,425	\$ 16.73
Options granted	343,125	36.73	329,625	34.93	272,250	20.25
	2,182,425	23.08	1,877,550	20.44	1,557,675	17.35
Options exercised	(15,675)	15.76	(32,250)	15.06	(7,500)	16.50
Options cancelled	(18,000)	27.08	(6,000)	18.50	(2,250)	16.83
Balance at end of year	2,148,750	\$ 23.10	1,839,300	\$ 20.54	1,547,925	\$ 17.35

Following is the continuity of unissued options reserved under the plan:

	1998	1997	1996
Balance at beginning of year	574,988	898,613	43,613
Options approved	-	-	1,125,000
Options granted	(343,125)	(329,625)	(272,250)
Options cancelled	18,000	6,000	2,250
Balance at end of year	249,863	574,988	898,613

## 12. Subordinated Notes

During 1998, the company arranged to issue, prior to 10 June 2000, up to a maximum of U.S. \$100,000 incremental rate junior subordinated notes maturing 31 December 2038. At 31 December 1998, the company had not issued any incremental rate junior subordinated notes. The incremental rate junior subordinated notes bear interest in arrears payable semi-annually at 8.5% for the ten year period ended 10 December 2008, 9.5% for the eleventh to fifteenth year and increasing by an additional 2% every five years thereafter. The incremental rate junior subordinated notes are redeemable, in whole or in part, by the company, at any time, at the principal amount plus accrued and unpaid interest to the date of redemption (hereafter referred to as the "Redemption Amount") and at maturity at the principal amount plus accrued and unpaid interest to the date of maturity (hereafter referred to as the "Maturity Amount").

The company may, at its option, pay the Redemption Amount, Maturity Amount or any interest payment in cash or by delivering common shares to a trustee. The trustee would sell the company's common shares and remit the proceeds to the holders of the incremental rate junior subordinated note in payment of the Redemption Amount, the Maturity Amount or the accrued interest.

The company may, at its option, defer payment of interest on the incremental rate junior subordinated notes by extending the interest payment date for up to four consecutive semi-annual periods. Interest continues to accrue during the extension periods, but does not compound. An interest deferral can only commence if there have been no dividends paid on common or preferred shares during the preceding six months. Should the company pay any dividends on common or preferred shares during the interest deferral period, the deferral period ceases and the payment of deferred interest is required.

The principal amount of the incremental rate junior subordinated notes will be classified as equity and accrued interest, on an after tax basis, will be classified as a charge to retained earnings since the company has the ability to settle the amounts by issuing its own common shares.

## 13. Dividend Restriction

The most restrictive covenant in the company's financing agreements requires consolidated shareholders' equity to be maintained at a minimum of \$600,000 plus 50% of net income earned after 31 December 1996. At 31 December 1998, the minimum shareholders' equity required is \$722,707.



# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

## 14. Cumulative Translation Adjustment

The cumulative translation adjustment represents the unrealized gain or loss on the company's net investment in self-sustaining foreign operations. Also included is the effect of exchange rate changes on transactions designated as hedges of the net foreign investment.

The change in the cumulative translation adjustment during the year ended 31 December 1998 of \$32,323 (1997 - \$22,745) results primarily from fluctuations of the Canadian dollar against the U.S. dollar and increase in the size of the company's foreign operations.

## 15. Cash Derived from (Applied to) Operating Activities

	1998	1997	1996
Working capital provided by operations			
Net income	\$ 113,241	\$ 132,173	\$ 83,298
Amortization of capital assets	30,975	19,212	19,225
Amortization of deferred charges	891	1,238	1,277
Deferred pension expense	(7,847)	1,030	(789)
Amortization of deferred gain on sale lease-back	—	(503)	(1,006)
Income taxes allocated to future years	6,780	(18,560)	(6,641)
	<u>\$ 144,040</u>	<u>\$ 134,590</u>	<u>\$ 95,364</u>
Change in non-cash operating working capital			
Trade receivables	\$ 6,505	\$ (30,737)	\$ (35,519)
Other receivables	(36,443)	272	4,113
Inventories	29,257	(109,247)	(31,346)
Prepaid expenses	(520)	(267)	572
Accounts payable and accrued charges	(21,107)	32,168	27,041
Accrued payroll and related liabilities	(1,757)	8,396	4,173
Income and other taxes payable	(46,284)	40,156	(11,225)
Other current liabilities	378	(792)	1,063
	<u>\$ (69,971)</u>	<u>\$ (60,051)</u>	<u>\$ (41,128)</u>

## 16. Expenditures for Capital Assets

	1998	1997	1996
Additions to capital assets	\$ 158,118	\$ 214,735	\$ 126,583
Decrease (increase) in accounts payable and accrued charges for capital expenditures	3,508	13,382	(8,385)
	<u>\$ 161,626</u>	<u>\$ 228,117</u>	<u>\$ 118,198</u>

17. Investment

A partnership formed between the company and Jamel Metals Ltd. ("Jamel"), formerly General Scrap & Car Shredder Ltd. ("General Scrap"), purchased the Canadian scrap metal operations of General Scrap and the shares of Sametco Auto Inc., an automotive parts operation, effective 01 April 1997 for approximately \$37,000, including the assumption of debt. IPSCO's interest in the capital of the partnership is 61% (1997 - 51%) and will increase to 100% by 2002. The company contributed \$3,022 (1997 - \$15,412) of capital to the partnership. Total assets and liabilities of the partnership at fair value upon acquisition were \$41,303 and \$11,084 respectively. There was no goodwill arising from this acquisition.

18. Segmented Information

The company is organized and managed as a single business segment being steel products and the company is viewed as a single operating segment by the chief operating decision maker for the purposes of resource allocation and assessing performance.

Financial information on the company's geographic areas follows. Sales are allocated to the country in which the third party customer receives the product.

	1998	1997	1996
Sales			
Canada	\$ 678,912	\$ 814,488	\$ 594,190
United States	420,408	211,154	210,708
	<u>\$ 1,099,320</u>	<u>\$ 1,025,642</u>	<u>\$ 804,898</u>
Capital Assets			
Canada	\$ 351,274	\$ 322,357	
United States	856,505	698,625	
	<u>\$ 1,207,779</u>	<u>\$ 1,020,982</u>	

Sales information by product group is as follows:

	1998	1997	1996
Steel mill products	\$ 288,441	\$ 189,142	\$ 154,748
Further fabricated products	810,879	836,500	650,150
	<u>\$ 1,099,320</u>	<u>\$ 1,025,642</u>	<u>\$ 804,898</u>

# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

## 19. Commitments

- a) The company and its subsidiaries have lease commitments on property for the period to 2014. The payments required by these leases are as follows:

1999	\$ 6,046
2000	5,331
2001	2,557
2002	2,429
2003	2,100
	<u>18,463</u>
2004 - 2014	12,684
	<u>\$ 31,147</u>

Rental expenses incurred under operating leases during 1998, 1997 and 1996 were \$4,650, \$9,798 and \$13,947 respectively.

- b) At 31 December 1998, the estimated cost to complete capital programs in progress is \$732,715, of which \$21,554 is committed. This includes the estimated cost to construct and commission the company's new U.S. steel mill facility.

## 20. Supplemental Information

	1998	1997	1996
Allowance for doubtful accounts	<u>\$ 1,695</u>	<u>\$ 1,740</u>	<u>\$ 1,602</u>
Doubtful accounts charged to expense	<u>\$ -</u>	<u>\$ 108</u>	<u>\$ 584</u>
Interest income	<u>\$ 6,946</u>	<u>\$ 11,339</u>	<u>\$ 13,985</u>
Other interest expense	<u>\$ 58</u>	<u>\$ 574</u>	<u>\$ 150</u>
Miscellaneous income	<u>\$ 2,718</u>	<u>\$ 3,474</u>	<u>\$ 2,121</u>
Net foreign exchange gain	<u>\$ 1,093</u>	<u>\$ 1,170</u>	<u>\$ 93</u>
Interest paid	<u>\$ 30,899</u>	<u>\$ 31,253</u>	<u>\$ 21,054</u>
Income tax instalments paid	<u>\$ 123,356</u>	<u>\$ 25,511</u>	<u>\$ 61,777</u>



# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

## 21. Significant Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP)

- a) Reconciliation of net income between accounting principles generally accepted in Canada and the United States:

	1998	1997	1996
Net income as reported under Canadian GAAP	\$ 113,241	\$ 132,173	\$ 83,298
Adjustments relating to the liability method of accounting for income taxes (i)	—	(1,340)	(1,187)
Adjustments relating to the capitalization of interest (ii)	(4,661)	5,559	1,037
Adjustments relating to commissioning costs (iii)	(9,257)	(26,259)	—
Adjustments relating to amortization of capital assets (iv)	(2,875)	—	—
Net income in accordance with U.S. GAAP	96,448	110,133	83,148
Accrued dividends on preferred shares including part VI.I tax	(1,148)	—	—
Net income available to common shareholders in accordance with U.S. GAAP	<u>\$ 95,300</u>	<u>\$ 110,133</u>	<u>\$ 83,148</u>
Earnings per common share:			
United States			
Basic	<u>\$ 2.34</u>	<u>\$ 2.71</u>	<u>\$ 2.05</u>
Fully diluted	<u>\$ 2.28</u>	<u>\$ 2.66</u>	<u>\$ 2.03</u>
Number of shares for earnings per common share			
Number of shares - basic	40,697,121	40,667,012	40,651,761
Adjustment for share options computation	778,032	710,505	276,681
Adjustment for preferred shares	829,468	—	—
Number of shares - fully diluted	<u>42,304,621</u>	<u>41,377,517</u>	<u>40,928,442</u>

# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

- i) United States GAAP requires the liability method of accounting for income taxes. For Canadian GAAP, the company adopted the liability method effective 01 January 1998 (see note 5) prior to which the company followed the deferral method. At 31 December 1997, deferred tax assets and liabilities under the liability method were as follows:

	1997
Future tax assets:	
Accounting provisions not deductible for tax purposes	\$ 27,049
Capitalized general and administration	1,212
Net operating loss carry forwards	5,664
Pension expense in excess of contribution	6,141
Other	10,334
Total future tax assets	50,400
Future tax liabilities:	
Capital cost allowance in excess of amortization	24,329
Net income taxes allocated to future years	\$ 26,071

- ii) United States GAAP requires interest to be capitalized on the expenditures incurred for all major projects under construction to a maximum of all interest costs during the year. For Canadian GAAP, the company only capitalizes interest to a maximum of interest costs on debt specifically raised for the project and any debt outstanding at the time the project commences.
- iii) United States GAAP requires commissioning or startup costs to be expensed as incurred. For Canadian GAAP, these costs are capitalized.
- iv) United States GAAP requires amortization of capital assets to commence when the capital assets are available for use. Under Canadian GAAP, amortization commences when the assets are placed into production which occurs at the end of the commissioning or start-up period. Further, the amount capitalized to capital assets under United States GAAP differs from the amount capitalized under Canadian GAAP (see ii and iii above).

b) Comprehensive income:

	1998	1997	1996
Net income in accordance with U.S. GAAP	\$ 96,448	\$ 110,133	\$ 83,148
Other comprehensive income, net of tax			
Foreign currency translation adjustments	32,323	22,745	1,342
Adjustments relating to minimum pension liability	(7,177)	(5,593)	-
	25,146	17,152	1,342
Comprehensive income in accordance with U.S. GAAP	\$ 121,594	\$ 127,285	\$ 84,490

# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

- c) Reconciliation of the statement of financial position between accounting principles generally accepted in Canada and the United States:

	1998	1997
i) Capital assets		
Balance under Canadian GAAP	\$ 1,207,779	\$ 1,020,982
Adjustments relating to the capitalization of interest	2,749	10,639
Adjustments relating to commissioning costs	(62,692)	(42,353)
Adjustments relating to amortization of capital assets	(3,140)	-
Balance under U.S. GAAP	<u>\$ 1,144,696</u>	<u>\$ 989,268</u>
ii) Deferred charges		
Balance under Canadian GAAP	\$ 4,608	\$ 3,736
Adjustments relating to minimum pension liability	15,221	16,351
Balance under U.S. GAAP	<u>\$ 19,829</u>	<u>\$ 20,087</u>
iii) Deferred pension liability (asset)		
Balance under Canadian GAAP	\$ (622)	\$ 7,225
Adjustments relating to minimum pension liability	35,555	25,372
Balance under U.S. GAAP	<u>\$ 34,933</u>	<u>\$ 32,597</u>
iv) Income taxes allocated to future years		
Net future tax liability (asset) balance under Canadian GAAP	\$ 6,592	\$ (4,070)
Adjustments relating to the capitalization of interest	1,023	4,043
Adjustments relating to commissioning costs	(23,321)	(16,094)
Adjustments relating to minimum pension liability	(7,564)	(3,428)
Adjustments relating to the liability method of accounting for income taxes	-	(6,522)
Adjustments relating to amortization of capital assets	(1,168)	-
Net future tax liability (asset) balance under U.S. GAAP	<u>\$ (24,438)</u>	<u>\$ (26,071)</u>
v) Shareholders' equity		
Balance under Canadian GAAP	\$ 1,212,989	\$ 933,650
Adjustments relating to the capitalization of interest	1,726	6,596
Adjustments relating to commissioning costs	(39,371)	(26,259)
Adjustments relating to minimum pension liability	(12,770)	(5,593)
Adjustments relating to the liability method of accounting for income taxes	-	6,522
Adjustments relating to amortization of capital assets	(1,972)	-
Balance under U.S. GAAP	<u>\$ 1,160,602</u>	<u>\$ 914,916</u>

In accordance with FASB Statement No. 87, the company has recorded an additional minimum pension liability for underfunded plans representing the excess of unfunded accumulated benefit obligations over previously recorded pension cost liabilities. A corresponding amount is recognized as a deferred charge except to the extent that these additional liabilities exceed the related unrecognized prior service cost and net transition obligation, in which case the increase in liabilities is charged directly to shareholders' equity, net of related deferred income taxes.

Balance  
= 1009.454



# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

- d) The above U.S. GAAP adjustments result in the following restatements of the company's statement of cash flows.

	1998	1997	1996
Cash derived from operating activities	\$ 51,907	\$ 41,051	\$ 55,753
Cash derived from financing activities	\$ 123,764	\$ 5,814	\$ 84,163
Cash applied to investing activities	\$ (142,486)	\$ (118,523)	\$ (50,224)
Effect of exchange rate changes on cash and cash equivalents	\$ 9,313	\$ 6,803	\$ 486
Cash position at 31 December	\$ 204,344	\$ 161,846	\$ 226,701

- e) Additional disclosure required under U.S. GAAP:

- i) The company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), in accounting for its employee stock options under accounting principles generally accepted in the United States. Under APB 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. This is in conformity with Canadian GAAP. However, FASB Statement No. 123 requires the disclosure of pro forma information regarding net income and earnings per common share using option valuation models that calculate the fair value of employee stock options granted.

The fair value for the stock options was estimated at the date of grant using a Black-Scholes option pricing model using the following weighted-average assumptions for 1998, 1997 and 1996 respectively: Risk-free interest rates of 5.2%, 4.3% and 6.4%; dividend yields of 1.4%, .9% and 1.6%; volatility factors of the expected market price of the company's common stock of .31, .20 and .19; and a weighted-average expected life of the options of two years.

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

# CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1998

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period. The company's pro forma information follows:

	1998	1997	1996
Pro forma net income	\$ 94,218	\$ 108,785	\$ 82,407
Pro forma net income available to common shareholders	\$ 93,070	\$ 108,785	\$ 82,407
Pro forma earnings per common share:			
Basic	\$ 2.29	\$ 2.68	\$ 2.03
Fully diluted	\$ 2.23	\$ 2.63	\$ 2.01

- ii) Under Staff Accounting Bulletin 74, the company is required to disclose certain information related to new accounting standards which have not yet been adopted due to delayed effective dates. FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", is effective for fiscal periods beginning after 15 June 1999. The company has not determined the impact, if any, of this pronouncement on its consolidated financial statements.

## 22. Contingencies and Environmental Expenditures

The major raw material used in the steelmaking process is reclaimed iron and steel scrap. This recycling has made a significant contribution to protecting the environment. As an ongoing commitment to the environment, the company continues to monitor emissions, perform site clean-up, and invest in new equipment and processes. Nevertheless, rapidly changing environmental legislation and regulatory practices are likely to require future expenditures to modify operations, install pollution control equipment, dispose of waste products, and perform site clean-up and site management. The magnitude of future expenditures cannot be determined at this time. However, management is of the opinion that under existing legislation and regulatory practices, expenditures required for environmental compliance will not have a material adverse effect on the company's financial position. Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on the future economic benefits.

## 23. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after 01 January 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

For further information regarding the Company contact:

Anne Parker

*Vice President, Trade Policy and Communications*

P.O. Box 1670, Regina, Saskatchewan, S4P 3C7

Telephone: (306) 924-7700 email: [aparker@ipsco.com](mailto:aparker@ipsco.com)

# 1998 INTRODUCING IPSCO

*In this document, unless the context otherwise indicates, references to IPSCO or the Company include both IPSCO Inc. and its wholly-owned or controlled subsidiaries. Certain statements in this commentary constitute "forward-looking statements". See "Note Regarding Forward-Looking Statements" on the inside cover of the Company's 1998 Annual Report.*

IPSCO Inc. was incorporated by nine investors in 1956 under the name of Prairie Pipe Manufacturing Co. Ltd. and proceeded to install pipe making facilities in Regina, Saskatchewan, Canada. It became a public company and was listed on the Toronto, Winnipeg and Vancouver stock exchanges in 1958. Its name was changed to Interprovincial Steel and Pipe Corporation Ltd. in 1960 after it commenced steel production. In 1984 it changed its name to IPSCO Inc., adopting the acronym by which it was generally known, as the full name.

It is currently traded on The Toronto Stock Exchange in Canada and the New York Stock Exchange in the United States. Today, IPSCO's shares are almost entirely in the hands of individual investors or financial institutions, such as insurance companies, pension plans, or mutual funds.

The North American steel industry is one characterized by intense competition and significant cyclicity. World steelmaking supply typically exceeds demand. In consequence both domestic and offshore producers compete aggressively in the areas of price, service, and quality. As well, other materials are competing with steel for many traditional steel end-use applications. IPSCO's response to these conditions is a continuing effort to lower unit costs, diversify product lines, and widen the geographic markets in which it participates while focussing on a niche of wider and thicker forms of flat hot rolled steel. Over the years it has expanded on both the Regina site and elsewhere through new construction as well as acquisition.

IPSCO's financial performance is affected by both the general economic cycle in North America and the demand for some of its specialized products, which may or may not be synchronous with the general cycle. The worldwide state of supply and demand for steel is also a significant factor, as are the U.S. and Canadian exchange rates with other currencies.

IPSCO pursues a policy of upgrading its facilities and installing new facilities to take advantage of technological developments that can be economically translated into higher quality, lower cost, safer, or more environmentally friendly operations. The average age of the approximately \$1.2 billion of fixed assets is 6.7 years reflecting IPSCO's desire to operate equipment and processes that utilize up-to-date steel production and processing technology.

IPSCO's operating steelworks, located in Regina, Saskatchewan and Montpelier, Iowa have a combined annual steelmaking production capability of two and one-quarter million tons of hot rolled coil and discrete plate. The Mobile Steelworks, plans for which were announced in December 1998, is designed to have a capacity of 1,250,000 tons per annum. Construction of the Mobile Steelworks is expected to commence in the first quarter of 1999.

The major raw material used in the steel making process is iron or steel scrap. IPSCO's total annual consumption of iron and steel scrap is approximately 110 percent of its steel production tonnage making it a large recycler of steel.



## INTRODUCING IPSCO

On a combined basis Canada and the United States typically produce steel scrap in excess of their needs and thus are traditionally net exporters of steel scrap to customers on other continents. Virtually all scrap transactions are of a "spot" nature, that is the price is set at the time of purchase with no forward price protection. Broadly speaking these "spot prices" increase and decrease based upon the supply and demand for steel products and the resultant worldwide demand for scrap.

IPSCO deals with a variety of suppliers for its supply of scrap steel.

For the Regina Steelworks, its main suppliers of scrap steel are located in Western Canada and the north central United States. In the past IPSCO has been able to source all Regina's requirements even when operating at full capacity. In 1997 it became the majority interest partner in a scrap supply operation to the Regina facility, which comprises ten scrap processing centres of which four include licensed scrap shredders. The partnership raised the captive scrap supply for the Regina facility to about half of its maximum requirements.

For the Montpelier Steelworks the Company purchases steel scrap from third parties in the spot market and under a supply contract.

IPSCO expects to source its scrap for the new Mobile Steelworks under arrangements similar to Montpelier.

The electric arc steelmaking process uses electrical energy that flows through graphite electrodes positioned above the steel scrap creating an electrical arc at temperatures up to 5500 degrees Fahrenheit. The use of this electricity makes the steelworks large consumers of electricity. The graphite electrodes are slowly but constantly consumed in the process. Other raw materials include alloys such as manganese, silicon, niobium, vanadium and molybdenum. These alloys are added to certain types of steel in order to impart special properties such as strength, corrosion resistance, and weathering characteristics. Lime is used as a flux in the process to remove impurities. Oxygen is used to remove impurities during the steelmaking process and to provide additional energy for melting the raw materials. Carbon dioxide and argon gases are used to shield the liquid steel from air contamination during refining and pouring.

The fumes which rise above the electric furnaces comprise a fine dust which contains heavy metals ("EAF dust"). These are collected by a special duct system which resembles a giant vacuum cleaner. Modern electric furnace technology is such that virtually all of this dust, classified as a hazardous waste, is collected and is disposed of in accordance with applicable laws and regulations.

Furnace slag is generated in the steelmaking process (comprising chiefly lime and silica) but can generally be used when sold for roadway and parking lot landfill. A further by-product, iron oxide "fines" removed from cooling water, is used as a raw material by some cement companies.

Liquid steel produced in the electric furnaces is fed to casters that continuously convert it to slabs of six or eight inches thick. These slabs are then converted to discrete plate or hot rolled coil in Steckel rolling mills. IPSCO produces discrete plate between 3/16 inches thick to 2 inches, up to 120 inches wide, and in lengths typically from 8 feet to as many as 80 feet long, although not all IPSCO steelworks have the same capabilities.

# INTRODUCING IPSCO

process, is addressed by an ongoing commitment to continuous analysis and improvement of IPSCO's production system. Modern statistical process control methods and sophisticated testing techniques in combination with the application of nationally recognized quality standards are aimed at providing IPSCO's customers with a consistently high quality product. All of IPSCO's works are registered under the ISO 9002-94 quality standards for the production of steel and tubular products.

Research activities are carried out at a research facility in Regina covering both studies designed to improve IPSCO's production methods as well as enhanced properties of the end-products in order to improve their performance in the hands of IPSCO customers. Work is carried out under contract at several American and Canadian universities,

It is hoped that this brief introduction to IPSCO will be of assistance to shareholders and others.

**For further information regarding the Company contact:**

Anne Parker

*Vice President, Trade Policy and Communications*

P.O. Box 1670, Regina, Saskatchewan, S4P 3C7

Telephone: (306) 924-7700 email: [aparker@ipSCO.com](mailto:aparker@ipSCO.com)

# INTRODUCING IPSCO

The hot rolled coil ranges between 1/10 of an inch to 3/4 inches thick in widths up to 96 inches with coil weights up to almost 40 tons.

Steelmaking is a water intensive process. Millions of gallons of water are circulated daily in IPSCO's steel melting, casting, and rolling operations, chiefly as a process coolant. In order to conserve the water it is continuously retreated, purified, and then recycled. Thus IPSCO's need for new water is primarily to replace that lost due to evaporation. Some additional water is used in IPSCO's pipe operations.

When compared to heavy industry generally or to steelmaking involving the reduction of iron ore with coke in particular IPSCO's electric furnace operations are relatively benign as can be inferred from the above process descriptions. Like other companies in the steel industry, however, IPSCO is subject to numerous complex federal, provincial, state and local environmental laws and regulations (as well as permits, licenses, and approvals thereunder). These concern, among other things, discharges to water and soil, air emissions, noise control, the generation, handling, storage, transportation, treatment and disposal of hazardous substances, and solid waste disposal.

Discrete plate and hot rolled coils are sold to customers who cut them into smaller pieces and then fabricate end products ranging from lamp poles, storage tanks, railroad cars, barges, ships, electric transmission line poles, farm equipment and implements, bridges, earth moving and other construction equipment, truck bodies, and the list goes on. The advent of lasers to cut steel has seen the growing use of steel plate as blanks from which myriad small parts can be cut. Hot rolled steel coils are also used by IPSCO customers for the production of tubular products.

IPSCO itself operates coil processing equipment in Regina; Surrey, British Columbia; St. Paul, Minnesota; and Toronto, Ontario which convert hot rolled coil to sheet and plate by uncoiling, flattening with special equipment, and cutting to length. The product is then sold to industrial manufacturers for similar end-uses to those described in the previous paragraph. Material produced in this fashion tends not to be completely free of residual stresses resulting from the fact that the steel was cooled down in coil form and then mechanically flattened. For this reason such cut-to-length products cannot be used for some demanding applications. The Toronto facility includes an extra operation, temper rolling, which substantially decreases the amount of residual stresses. In the latter part of 1999 IPSCO will be commissioning a temper mill and cut-to-length line in Houston, Texas.

IPSCO produces tubular products up to 24 inches in diameter by the electric resistance weld process ("ERW" for short). In the process a coil of steel is continuously fed through a set of rolls to bend it into a cylindrical hollow shape with the coil's length as its axis. The two edges are then heated to red-hot temperatures by applying electrical energy and forced together such that the edges are fused permanently upon cooling. To produce rectangular or square tubes the round pipe is immediately put through a set of forming rolls to alter its shape. IPSCO operates ERW pipe making facilities in Calgary, Red Deer and Edmonton, Alberta; Camanche, Iowa; Geneva, Nebraska; Blytheville, Arkansas, and Regina, making pipe from 2 inches to 24 inches in diameter but not all pipe mills in the IPSCO group have the same product and size ranges. Pipe diameters over 24 inches to 80 inches, chiefly used in gas and oil pipelines are produced by IPSCO in a process called "spiral pipe making". Coils of steel are continuously fed into equipment that forms



# INTRODUCING IPSCO

a tube by winding it spirally and then welding it together. IPSCO produces spiral pipe at Regina and Edmonton.

The tubular products made include plumbing pipe for water distribution (primarily in multi-family dwellings and commercial or industrial establishments and commonly called "standard pipe"), oil and gas well casing and tubing (referred to in the trade as "oil country tubular goods" or "OCTG"), pipe for gathering oil and gas from wells, transmitting it long distances, and for the final distribution to end-customers (pipe for these purposes is collectively referred to as "line pipe"), water and sewage transmission pipe, tubular products for building and construction applications, most often in square or rectangular cross-sections (commonly referred to as "hollow structural sections" or "HSS").

A table giving further detail on IPSCO's production facilities can be found at the end of this pamphlet.

Because IPSCO is not only a large producer of hot rolled coil and plate but also consumes large quantities of steel in its further fabricating operations, coil processing and tubular products manufacturing, it often has the opportunity of either making or buying its steel needs. IPSCO attempts to maintain a situation whereby its orders for plate and coil by third parties plus its own needs for the fabricating operations exceeds its production capacity. With such a "steel short" condition IPSCO can select for its own production the product mix that optimizes total profit, buying the balance from other steel producers. When demand falls off purchases can be reduced while IPSCO's own facilities remain busy. Successful implementation of this strategy requires central decision-making involving the analysis of cross-company incremental costs and total profits. Such a strategy runs counter to the concept of individual profit centres which could easily sub-optimize profits. Thus while IPSCO maintains some specialized sales and production units there is no profit centre structure.

The Company has sales offices or sales representatives located in Surrey, British Columbia; Calgary, Alberta; Regina, Saskatchewan; and Toronto, Ontario in Canada, and in St. Paul, Minnesota; Camanche and Montpelier, Iowa; Houston, Texas; Denver, Colorado; Chicago, Illinois; Pittsburgh, Pennsylvania; and Tulsa, Oklahoma in the United States. Sales of IPSCO products in the United States are mainly conducted through IPSCO Steel Inc., IPSCO Tubulars Inc., Paper Cal Steel Co., and IPSCO Sales Inc., all subsidiaries of IPSCO Inc.

Large volume orders for IPSCO's products are normally sold directly to the end-user manufacturer while smaller quantities are sold by industrial distributors who buy in bulk from IPSCO and resell smaller quantities. For some products such as oil country tubular goods or standard pipe there exist specialized distributors.

IPSCO's business philosophy is that it exists to serve customers. While all manufacturers undoubtedly embrace this "truism", IPSCO puts its philosophy into practice in a three-pronged approach stressing service, quality, and research and product development.

The ever-increasing demand for the supply of quality products that not only display consistent compliance with customer specifications but also demonstrate a reliability of performance within the customer's own

# INTRODUCING IPSCO

The following table describes IPSCO's major steel production and steel processing equipment by location, including those currently being developed:

Location	Principal Equipment	Output Capacity (tons)	Real Property (acres)
Regina, Saskatchewan	Electric arc furnaces, continuous slab caster and hot rolling equipment (Steckel mill)	Capacity sufficient to produce 1,000,000 tons of mill edge coil and discrete plate	570
	Slitter	500,000	
	Slitter	500,000	
	Cut-to-length line	150,000	
	24" ERW pipe mill	300,000	
	2" ERW pipe mill	28,000	
	Three spiral weld pipe mills	250,000	
Calgary, Alberta	ERW pipe mill	300,000	82
Edmonton, Alberta	ERW pipe mill	160,000	155
	Spiral pipe mill <sup>(1)</sup>	64,000	
Red Deer, Alberta	ERW pipe mill	155,000	118
Surrey, British Columbia	Cut-to-length line	150,000	Less than 5
Toronto, Ontario	Temper mill and cut-to-length line	300,000	Leased Facility
Montpelier, Iowa	Steel mill completing ramp-up	1,250,000 of discrete plate and hot rolled coil	2,000
St. Paul, Minnesota	Cut-to-length line	200,000	Leased Facility
Camanche, Iowa	Two ERW pipemills and threading equipment	225,000	135
Geneva, Nebraska	ERW pipemill	120,000	13
Blytheville, Arkansas	ERW pipemill	300,000	60
Houston, Texas	Temper mill and cut-to-length line under construction	300,000	Leased Facility
Mobile, Alabama	Steel mill commencing construction in the first quarter of 1999	1,250,000 of discrete plate and hot rolled coil	850

<sup>(1)</sup> Capacity is for welded pipe only. Mill capacity does not include ability to process pipe through finishing line.







# FORM 40-F [AIF]

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 40-F

ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 31 December 1998

Commission file number: 0-19661

### **IPSCO Inc.**

(Exact name of Registrant as specified in its charter)

**CANADA**

(Province or other jurisdiction of incorporation or organization)

**3312/3315/3317/3325/3399**

(Primary Standard Industrial Classification Code Numbers)

**P.O. Box 1670, Regina, Saskatchewan, Canada, S4P 3C7, Telephone: (306) 924-7700**

(Address and telephone number of Registrant's principal executive offices)

**Mr. B. Mooty - Gray, Plant, Mooty, Mooty & Bennett, P.A.**

**3400 City Center, 33 South Sixth Street, Minneapolis, Minnesota 55402 Telephone: (612) 343-2800**

(Name, Address, (including zip code) and telephone number (including area code)  
of agent for service in the United States)

**Securities registered pursuant to Section 12(b) of the Act: Common Shares**

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**Title of Class: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None**

#### **Information filed with this form:**

☒ Annual Information Form      ☒ Audited annual financial statements

**Number of outstanding shares of each of the issuer's classes of  
capital or common stock as of the close of the period covered by the annual report**

40,703,436 Common Shares outstanding as of 31 December 1998

Indicate by check mark whether the Registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

☐ Yes      ☒ No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes      ☐ No

# FORM 40-F (AIF)

A number of the documents incorporated by reference herein contain forward-looking statements. Certain statements in this Form 40-F constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. (See "Note Regarding Forward-Looking Statements" on p. 10 of the Annual Information Form of IPSCO Inc. dated 26 February 1999, incorporated herein and forming an integral part of this document).

## UNDERTAKING

IPSCO Inc. undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

## SIGNATURES

Pursuant to the requirements of the Exchange Act, IPSCO Inc. certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

DATED this 26<sup>th</sup> day of February, 1999.

IPSCO Inc.

By : 

Edwin J. Tiefenbach,  
Vice-President and Chief Financial Officer

## Exhibit Index

Exhibit No.	Description	Page No.
1.	Annual Information Form of IPSCO Inc. dated 26 February 1999	
2.	Consolidated Financial Statements for the fiscal years ended 31 December 1998 and 1997 and including a U.S. GAAP reconciliation note, together with the auditors' report thereon	
3.	Management Discussion and Analysis of Financial Condition and Results of Operations for 1998	
4.	Consent of Auditors	
5.	IPSCO Inc. 1998 Annual Report (certain portions of which are incorporated by reference into the Annual Information Form of IPSCO Inc. dated 26 February 1999)	
6.	Introducing IPSCO	
7.	Management Proxy Circular and Notice of Annual Meeting dated 26 February 1999	



26 February, 1999

## IPSCO Inc. Annual Information Form

### INCORPORATION BY REFERENCE

Additional items comprising part of this Annual Information Form are disclosed in portions of the Company's:

- 1998 Annual Report, Management Proxy Circular, Introducing IPSCO, Management Discussion and Analysis of Financial Condition and Results of Operations (M,D&A) for the fiscal year ended 31 December 1998; all dated 26 February 1999; and
- the Audited Annual Consolidated Financial Statements for the fiscal year ended 31 December 1998 and the related notes.

Unless the context otherwise indicates, reference to "IPSCO" or the "Company" in this Annual Information Form refers to IPSCO Inc. and its wholly-owned or controlled subsidiaries or other entities. Except where otherwise noted, (i) all share amounts give effect to the three-for-two split of the Company's common shares effective 9 March 1998. References to "dollars", "Cdn.\$" or "\$" are to Canadian dollars and references to "US \$" are to United States dollars. Reference to the "capacity" of any of the Company's facilities not yet fully operational is management's belief of the facility's capacity in accordance with industry standards. Estimates of imports and other market statistics are derived from a variety of external sources including the American Iron and Steel Institute, the Canadian Steel Producers Association and certain government agencies and should not be relied on as being fully accurate but rather indicative of trends and relative sizes. When the United States and Canada are referred to together, the import figures include amounts coming into the two countries from other than the United States and Canada.

The portions of these documents described below are incorporated herein and form an integral part hereof.

	Annual Information Form	Annual Report	Proxy Circular	Introducing IPSCO	MD&A	Audited Financial Statement
<b>Item 1 (1)</b> Incorporation		Back Inside Cover		Page 1		
<b>Item 1 (2)</b> Corporate Structure		Back Inside Cover				
<b>Item 2</b> General development of the Business	See Below					
<b>Item 3 (1)</b> <b>(a)(i),(b),(c)</b> Product, markets and distribution		Pages 10-15		Pages 2-4		Note 1 Page 31

# FORM 40-F (AIF)

	Annual Information Form	Annual Report	Proxy Circular	Introducing IPSCO	MD&A	Audited Financial Statement
<b>Item 3 (1) e</b> Raw Materials				Pages 1-2		
<b>Item 3 (1) f</b> Intangibles				Pages 4-5		
<b>Item 3 (1) n</b> Principal Properties				Page 6		
<b>Item 3 (2) a</b> Competitive conditions	See Below	Pages 11-12 Pages 23-26		Page 1	Pages 21, 23	
<b>Item 3 (2) b</b> R & D		Page 20				
<b>Item 3 (2) c</b> Environmental					Page 21	
<b>Item 3 (2) d</b> Number of employees		Page 2				
<b>Item 3 (2) e</b> Foreign Operations Risks		Pages 23-26				
<b>Item 4 (1)</b> Financial Summary		Page 43				
<b>Item 4 (2)</b> Quarterly Summary					Pages 14-15	
<b>Item 4 (3)</b> Dividend Payment Restriction						Note 13 Page 42
<b>Item 5</b> MD&A					Entire document incorporated by reference	
<b>Item 6</b> Exchanges		Page 42				
<b>Item 7</b> Directors and Officers			Pages 2-3, 12			

## THE STEEL INDUSTRY

### AN OVERVIEW

The steel industry is highly cyclical in nature and sensitive to general economic conditions. The financial condition and results of operations of companies in the steel industry are generally affected by macroeconomic fluctuations in the U.S., Canadian and global economies. In the early 1980's, certain Canadian and U.S. steel producers incurred significant losses and bankruptcies as a result of a number of factors, including worldwide production overcapacity, increased global competition, inefficient plants, high labour costs and the strength of the Canadian and U.S. dollars relative to other currencies. In the late 1980's, earnings of Canadian and U.S. steel producers benefited from improved industry conditions. During 1990 to 1992 the steel industry experienced a downturn and substantial excess worldwide manufacturing capacity for steel products, combined with a worldwide economic slowdown resulted in a substantial decrease in the demand for steel products, increased international competition and downward pressure on steel prices. Although demand for steel products recovered and the profitability of the industry improved between 1992 and 1997, in the last year there has been a substantial increase in steel imports into North America at what the Company believes are unfair prices, and downward pressure on steel prices. IPSCO and other North American steelmakers have commenced anti-dumping actions to curtail the unfair imports. However, trade cases are often drawn out and much injury can be caused in the interval.

The global steel industry is also highly competitive and capital intensive. The Company competes with foreign and domestic producers, including both integrated and mini-mill producers. Competition is based on price, quality and the ability to meet customers' product specifications and delivery schedules. Competition in the North American steel industry may intensify as a result of expansions and announcements by IPSCO and other steel companies of increases in North American mini-mill capacity, particularly in certain of the Company's products. The North American economy, however, consumes more steel than it did a decade ago and traditionally produces less steel than is consumed in its market, with the deficiency being supplied by imports.

## IPSCO

### AN OVERVIEW

IPSCO is a leading mini-mill producer of steel and steel products in Canada and the U.S. The Company manufactures steel in hot rolled coil and discrete plate forms, with a focus on wider, thicker and higher strength steel products, at its two mini-mills located at the Montpelier Steelworks and the Regina Steelworks and a range of further fabricated products at eight locations in Canada and the U.S. (these products include energy related tubulars, standard pipe, hollow structural sections and cut-to-length steel). The Company's products are marketed in Canada and the U.S. to customers in the manufacturing, energy, transportation, construction, heavy equipment and agricultural equipment sectors and to distributors or further fabricators of steel products.



A significant portion of the steel produced at the Regina Steelworks has historically been utilized by the Company's downstream pipemaking and coil processing facilities. The Company currently operates 12 pipemills and three cut-to-length lines located in Canada and the U.S. Following the start-up of the Houston Coil Processing Facility, Toronto Coil Processing Facility, and Blytheville Pipemill, the Company's facilities are expected to have an annual capacity of 1.9 million tons of pipe and 1.1 million tons of processed coil. In addition to steel produced by the Company, the Company purchased 475,000 tons during 1997 and 216,700 tons during 1998 of hot-rolled coil steel from third-party producers to supply its downstream operations.

## BUSINESS STRATEGY

The Company's primary objective is to continue to profitably grow its business and to further enhance its position as a low cost, high quality producer. The key elements of the Company's strategy include the following:

Pursue Profitable Growth Opportunities - The Company intends to further strengthen its market position by pursuing opportunities, particularly in wider, thicker and higher strength steel products, and to invest in Canadian and U.S. operations which are viewed as having attractive growth and profit potential. In addition, the Company focuses on projects that offer, among other things, increased geographic reach, lower costs or the prospect of achieving a stronger competitive position. Recent initiatives include the following:

U.S. Steelworks - The Company believes that the Montpelier Steelworks, a state-of-the-art 1.25 million ton annual capacity plate mill will significantly strengthen the Company's position in the U.S. plate market, and management believes that the mill, when fully operational, will be among the lowest cost producers of plate in North America. This facility is the first mill in Canada and the U.S. to utilize advanced mini-mill technology to produce low cost, high quality plate using continuous casting, steckel mill rolling and in-line processing.

In December IPSCO announced that it had selected Mobile, Alabama as the site of a second U.S. steelworks. The 1,250,000-ton annual capacity mill will closely parallel the Montpelier facility, recycling steel scrap and producing discrete plate and wide hot rolled coil in plate and near plate thicknesses. Management believes the U.S. Gulf region is the fastest growing consumer of plate in America and that the new facility should be able to displace substantial tonnages of imported steel coming into the region, provided that the imported steel is fairly priced.

New Coil Processing Facilities - The Company has undertaken the construction of the Houston Advanced Coil Processing Facility and the Toronto Advanced Coil Processing Facility to compliment its coil processing facilities in Regina; Surrey, British Columbia; and St. Paul, Minnesota (operated by its subsidiary, Paper Cal Steel Co.). The Houston Advanced Coil Processing Facility is designed to have an annual capacity of 300,000 tons. The Toronto Advanced Coil Processing Facility is designed to have an annual capacity of 300,000 tons. These facilities are designed to process coiled plate up to  $\frac{3}{4}$  inches thick and 96 inches wide. Currently, there are no advanced coil processing facilities in the Houston and Toronto areas which include temper mills for improved shape and surface quality.

High-Speed Pipemill - The Company has also undertaken the construction of the Blytheville Pipemill. The mill is designed to have an annual capacity of approximately 300,000 tons. The mill is designed to produce standard pipe for plumbing and construction applications and line pipe, casing and tubing blanks for the oil and gas market. The new pipemill will expand the Company's reach in the U.S. and provide it with better access to the southern U.S. energy and construction markets.

Enhance Position as Low Cost, High Quality Producer - Management believes that the Company's per ton manufacturing costs for hot rolled coil in plate and near plate forms and discrete plate are among the lowest of Canadian and U.S. steel producers and that the ramp-up of the Montpelier Steelworks, as well as the other recently announced projects, will further enhance the Company's cost position relative to that of its competitors. In its plate production process the Company utilizes in-line processing and a steckel rolling mill which involves no cross-rolling of slabs and reduces handling time thereby improving throughput and lowering conversion costs.

Focus on Profits by Capitalizing on "Make or Buy" Option - The Company has configured its value-added processing capacity to exceed its existing internal steelmaking capability so that it often operates "steel short". Such an approach allows the Company to make steel purchases from third-party producers to feed its downstream operations when these operations experience strong demand. In periods of weaker demand, the Company can reduce open-market purchases while allowing its steelworks to remain operating at high utilization rates. This arrangement helps the Company in its efforts to operate efficiently throughout the business cycle.

By providing the Company's value-added downstream operations with the "make or buy" option of sourcing steel from internal operations or from third-party steel producers, an internal discipline is created to accept only incremental orders for processed products that can be produced profitably using steel purchased at current market prices. For example, if a pipemaking facility can purchase lower cost, third-party steel that is appropriate for a customer application, then the Company can redirect its steelmaking capacity to produce higher margin hot rolled coil in plate and near plate forms and discrete plate products that can be sold into higher margin, niche markets. This strategy is intended to maximize overall Company profit. In addition, purchasing steel from other producers provides management with market intelligence into the level of quality, availability and service provided by its competitors.

Diversify Product Mix and Expand Geographically - A major focus of the Company is producing wider (up to 120 inches), thicker (up to 2 inches) and higher strength (up to 100,000 psi) plate products. Its facilities are also designed to efficiently roll lighter gauge material in coiled or discrete form. The Company's pipemaking facilities specialize in producing tubular products in sizes ranging from 2¾ to 80 inches in diameter and can vary their product mix between energy or non-energy applications depending on prevailing market conditions. The Houston and Toronto coil processing facilities, the Blytheville pipemill, and the Montpelier and Mobile steelworks are intended to significantly expand the Company's geographic reach. The Company believes that its flexible production capabilities and geographic diversity reduce its downside exposure in any particular geographic or industry market.



## NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form, and in the documents incorporated or deemed to be incorporated by reference herein, constitute forward-looking statements and relate to the Company's beliefs or expectations as to future events. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always indicated by the use of words or phrases such as "will likely result", "are expected to", "will continue to", "anticipates", "believes", "expects", "estimates", "intends", "plans", "projects" and "outlook") are not historical facts and may be forward-looking. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from future results, levels of activity and achievements expressed or implied by such forward-looking statements. Such factors include, among others: general economic conditions, the demand for steel and the specific steel products of the Company, expected time of completion of and anticipated equipment performance in connection with the ramp-up of the Montpelier Steelworks, timing of completion and estimated costs in connection with the Company's other announced capital projects including the Mobile Steelworks, the impact of new Canadian and United States steelmaking capacity and the level of steel imports into the Canadian and United States markets, economic conditions in steel exporting nations, trade sanction activities, supply and demand for scrap steel and iron, alloys and other raw materials, supply and demand for the electricity and natural gas used by the Company, changes in environmental and other regulations and the magnitude of future environmental expenditures, inherent uncertainties in the development and performance of new or modified equipment or technologies, North American interest rates, exchange rates and the level of demand outside of North America for steel and steel products. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Any forward-looking statements contained herein speak solely as of the date on which such statements are made, and the Company undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date on which such statements were made or to reflect the occurrence of unanticipated events.

## ADDITIONAL INFORMATION

The rights of the holders of common shares of the Company are subject to the provisions of a Shareholder Rights Agreement dated 14 March 1990, as amended 20 April 1995 and 24 April 1998, between the Company and Montreal Trust Company of Canada.

The Company will provide to any person, upon request to the Secretary of the Company:

- (1) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,



- (a) one copy of the Annual Information Form of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;
  - (b) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditors and one copy of any interim financial statement of the Company subsequent to the financial statements for its most recently completed financial year;
  - (c) one copy of the management proxy circular of the Company in respect of its most recent annual meeting of shareholders; and
  - (d) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (a) to (c) above; or
- (2) any other time, one copy of any document referred to in (1) (a), (b), and (c) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information in respect of directors' and executive officers' remuneration, principal holders of the Company's securities and options to purchase securities is contained on pages 2-4, 6-11 of the Company's Management Proxy Circular dated 26 February 1999 and additional information is provided in the Company's consolidated financial statements for the fiscal year ended 31 December 1998. Copies of these documents may be obtained upon request from the Vice President, Trade Policy and Communications of the Company, P.O. Box 1670, Regina, Saskatchewan, S4P 3C7.

**For further information regarding the Company contact:**

Anne Parker

*Vice President, Trade Policy and Communications*

P.O. Box 1670, Regina, Saskatchewan, S4P 3C7

Telephone: (306) 924-7700 email: [aparker@ipsco.com](mailto:aparker@ipsco.com)